AR52

Principles For Performance

Client Focus

Respect for the Individual

Teamwork

Responsible Citizenship

Integrity

Merrill Lynch

1993 Annual Report

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Financial Highlights

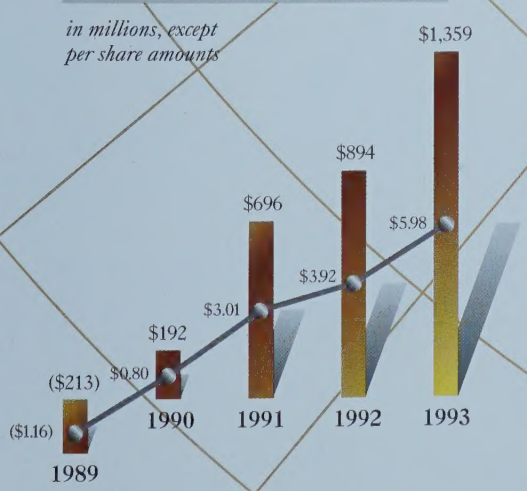
(Dollars in Thousands, Except Per Share Amounts)	Year Ended Last Friday in December				
	1989 (52 Weeks)	1990 (52 Weeks)	1991 (52 Weeks)	1992 (52 Weeks)	1993 (53 Weeks)
Operating Results					
Total Revenues	$ 11,273,223	$ 11,147,229	$ 12,352,812	$ 13,412,668	$ 16,588,177
Net Revenues	$ 5,902,195	$ 5,783,329	$ 7,246,468	$ 8,577,401	$ 10,558,230
Net Earnings (Loss)	$ (213,385)	$ 191,856	$ 696,117	$ 893,825	$ 1,358,939
Return on Average Assets	(a)	0.3%	0.8%	0.8%	1.0%
Return on Average Common Stockholders' Equity	(7.4)%	5.8%	20.8%	22.0%	27.3%
Financial Position					
Total Assets	$ 63,942,263	$ 68,129,527	$ 86,259,343	$107,024,173	$152,910,362
Total Stockholders' Equity	$ 3,151,343	$ 3,225,430	$ 3,818,088	$ 4,569,104	$ 5,485,913
Per Common Share *(b)*					
Primary Earnings (Loss)	$ (1.16)	$.80	$ 3.01	$ 3.92	$ 5.98
Fully Diluted Earnings (Loss)	$ (1.16)	$.80	$ 2.95	$ 3.91	$ 5.95
Dividends Paid	$.50	$.50	$.50	$.575	$.70
Book Value	$ 14.26	$ 14.99	$ 17.88	$ 21.37	$ 26.17
Other Statistics					
Assets Under Management	$ 98,000,000	$ 110,000,000	$ 123,000,000	$138,000,000	$160,000,000
Assets in Domestic Private Client Accounts	$334,000,000	$ 356,000,000	$ 417,000,000	$456,000,000	$511,000,000
Assets in Worldwide Private Client Accounts	$349,000,000	$ 372,000,000	$ 435,000,000	$476,000,000	$536,000,000
Common Shares Outstanding *(c)*	205,382,754	199,669,270	205,443,636	207,202,688	203,989,691

(a) As a result of the net loss in 1989, this ratio is not meaningful.

(b) All share and per share data have been restated for the two-for-one common stock split (see Stockholders' Equity Note to the Consolidated Financial Statements).

(c) Does not include 18,653,462, 16,071,968, 13,636,820, 11,201,672 and 8,932,332 unallocated shares held in the Employee Stock Ownership Plan at year-end 1989, 1990, 1991, 1992 and 1993, respectively, which are not considered outstanding for accounting purposes.

Net Earnings (Loss) and Per Share Amounts



Book Value Per Common Share



Client Focus

Respect for the Individual

Teamwork

Responsible Citizenship

Integrity

To Our Shareholders and Clients:

By resolutely focusing on the needs of our clients and our role as their trusted advisor, Merrill Lynch in 1993 provided common shareholders with the highest earnings ever achieved by a public U.S. securities firm.

It was an extraordinary year by many measures:

- Net earnings were $1.36 billion, up 52% from 1992, marking our third straight year of record profits.
- Our stock price reached record levels, prompting two dividend increases and a two-for-one common stock split. The corporation has now increased dividends three times in the last two years.
- While our shareholders' equity increased 20.1% to $5.49 billion and our effective tax rate rose from 41.3% to 42.5%, the company's return on common equity increased to 27.3% from 22.0% in the prior year.
- After several ratings upgrades in recent years, our commercial paper and senior debt now share the highest ratings in our industry.
- Total earnings of $3.1 billion for the 1990s — just four years into the decade — already exceed Merrill Lynch's cumulative earnings of $2.9 billion during all our previous years as a public company (1971 through 1989).

While we are proud of these achievements, we are determined to remember how they were accomplished. Our company is guided by a strong set of corporate values, the Merrill Lynch Principles. These principles are the essential underpinnings of the broad strategies that have helped create our success.

We continue to refine these strategies: concentration on core businesses; steady expansion of our global capabilities; further strengthening of our capital base and liquidity position; and effective cost and risk management controls. These strategies are intended to enhance both client service and profitability, thereby creating value for shareholders. Beginning on page 29 of this report, we discuss some of the performance measures Merrill Lynch has adopted to ensure that the creation of shareholder value remains a

MERRILL LYNCH IS SINGULARLY POSITIONED AND STRATEGICALLY COMMITTED TO GLOBAL LEADERSHIP AS THE PREEMINENT FINANCIAL MANAGEMENT AND ADVISORY COMPANY

fundamental part of every decision.

Nearly all our business groups performed strongly in 1993. In Private Client, assets entrusted to us passed the half trillion dollar mark, ending the year at $536 billion, up $60 billion or 13% from 1992. In 1993, an average of $122 million of new Private Client assets flowed into Merrill Lynch each business day. The portion of our clients' assets invested internationally rose to 9.2%, and we believe it will reach 20% by the end of the decade.

The portion of clients' assets under fee-based management by Merrill Lynch Asset Management (MLAM) rose 16% to $160 billion. Assets invested by U.S. clients in MLAM international and global funds increased nearly 82% to $21.4 billion.

These figures demonstrate the success of the strategy our Private Client group has pursued for more than a decade — gathering assets by building long-term relationships, based on a thorough understanding of our clients' needs. A linchpin of this strategy is sophisticated financial planning, and more than 116,000 of our clients have now taken advantage of our state-of-the-art financial planning service, Financial Foundation®.

As global securities issuance soared to nearly $1.5 trillion in 1993, Merrill Lynch remained the No. 1 lead manager of underwriting for a sixth consecutive year in the U.S. and a fifth consecutive year worldwide. We served as lead underwriter for $193 billion in new global debt and equity, exceeding our nearest competitor by $42 billion, with a 12.8% market share. We also ranked at the top of nearly every debt and equity category, including corporate common stock underwritings, in which we were the leader for the first time.

At the same time, Merrill Lynch remained the leader in distribution and aftermarket support, and we continued to place emphasis on offering top quality strategic advisory services.

Our Global Securities Research and Economics Group was top-ranked in both the *Institutional Investor* and *The Wall Street Journal* polls. Our professionals in Operations, Systems and Telecommunications worked continuously to provide the technological innovation needed to deliver client service of the highest quality.

PRINCIPLES FOR PERFORMANCE

In 1993 Merrill Lynch was responsible to more countries, companies and individuals for more underwriting and financial advice in more markets and across more borders than any firm in history. We succeeded by letting our principles light our way — the same unchanging principles that have guided us for 109 years:

- Client Focus — Our clients come first. They are the driving force behind everything we do.
- Respect for the Individual — We believe in treating everyone with dignity, whether an employee, shareholder, client or member of the general public.
- Teamwork — We strive for seamless integration of services because in our clients' eyes there is only one Merrill Lynch.
- Responsible Citizenship — We seek to improve the quality of life in the communities where we live and work.
- Integrity — No one's personal bottom line is more important than the reputation of our company.

Trusted Global Advisor



DURING 1993, ASSETS IN PRIVATE CLIENT ACCOUNTS SURPASSED HALF A TRILLION DOLLARS, ENDING THE YEAR AT $536 BILLION. WE ARE ESPECIALLY PROUD OF THIS MEASURE OF TRUST THAT CLIENTS CONTINUE TO PLACE IN MERRILL LYNCH.

YPF— A Landmark Transaction

WE JOINT LEAD MANAGED THE LARGEST LATIN AMERICAN PRIVATIZATION EVER, THE $3 BILLION INITIAL PUBLIC OFFERING OF THE ARGENTINEAN OIL COMPANY YPF, AND WE SERVE AS A TRUSTED ADVISOR TO A GROWING NUMBER OF GOVERNMENTS OF RAPIDLY DEVELOPING NATIONS AS THEY MOVE TO PRIVATIZE STATE-OWNED INDUSTRIES.

YPF $3,040,000,000

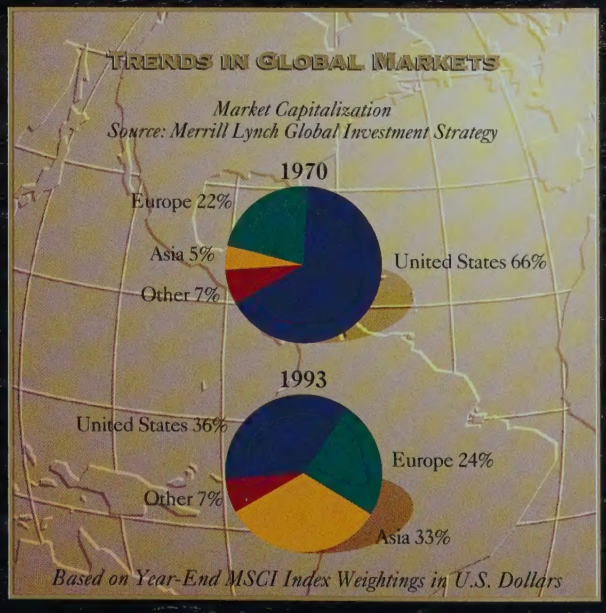
YPF Sociedad Anónima

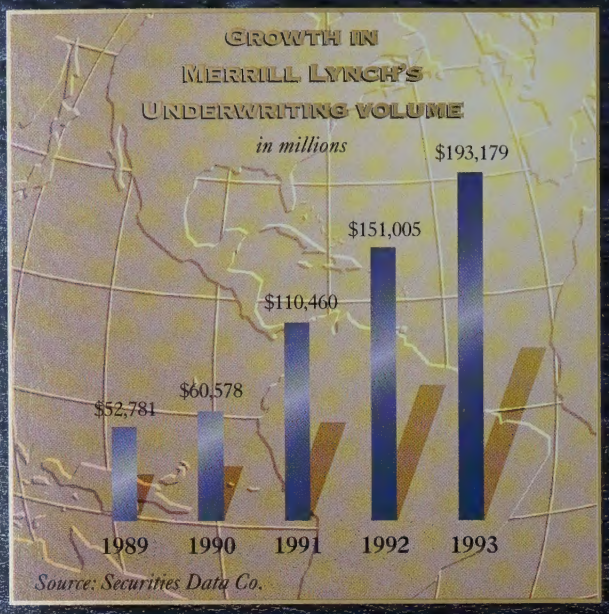
160,000,000 Shares
Initial Public Offering

Joint Global Coordinator and
Joint Lead Manager

These five principles explain our company's performance better than any set of numbers or rankings. They are the reason clients have entrusted Merrill Lynch with more than $536 billion in assets, why they continue to seek planning advice and guidance from our Financial Consultants, the most extensively trained in the industry, and why they continue to rely on our FCs to help them choose from the most comprehensive array of products and services to meet their needs. It may also explain why, in a recent survey by Towers Perrin, top U.S. bank executives rated Merrill Lynch "the best managed non-bank retailer."

Guided by our principles in pursuit of our mission, we have been the leading global underwriter for five consecutive years. In 1993, Merrill Lynch was





the industry leader in every equity category worldwide — initial public offerings, common stock issues, convertible issues, and closed-end funds. The prestigious *International Financing Review* of London named our company "Equity House of the Year," noting that "Merrill Lynch has broken clear of the competition with an array of important transactions on every continent." In addition, we were a leader in virtually all categories of the debt markets and in derivatives.

The world changed greatly in 1993. People, nations, capital and markets all grew closer, creating unprecedented opportunities for the growth and prosperity of humankind. But while the world grows smaller, it also grows more complex. More than ever, helping clients navigate in this complex marketplace requires global resourcefulness, strategic perspective and creativity.

We concentrate on understanding

The First U.S. Securities Firm in the People's Republic of China



MERRILL LYNCH BECAME THE FIRST U.S. SECURITIES FIRM TO OPEN AN OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA, ADDING ANOTHER DIMENSION TO OUR GLOBAL PERSPECTIVE. A DELEGATION OF CHINA'S TOP SECURITIES PROFESSIONALS CAME TO OUR COMPANY FOR AN INTENSIVE EIGHT-WEEK COURSE IN THE GLOBAL CAPITAL MARKETS.

Preparing a New Generation for Retirement

NO ONE DOES MORE RESEARCH ON PEOPLE'S RETIREMENT AND SAVING NEEDS. OUR *RETIREMENT SAVINGS IN AMERICA* SURVEY, OUR *BABY BOOM RETIREMENT INDEX*SM AND OUR *SAVING THE AMERICAN DREAM*SM STUDY ALL PROVIDE VALUABLE INSIGHTS THAT HELP OUR FINANCIAL CONSULTANTS BETTER ADVISE THEIR CLIENTS.



our clients' needs and then using our global presence and perspective to craft and execute plans that achieve their goals. This approach leads us to emphasize long-term client relationships, not short-term transactions.

In the end, the success of our company cannot be measured solely by the assets we manage, the issues we underwrite or the trades we execute. It can only be measured by the quality of our client relationships, the value clients place on our advice and service, and the degree to which clients, shareholders and employees trust us to live by our principles.

These qualitative measures are the foundation of Merrill Lynch's past success. They will continue to make a difference in years to come.

As part of our ongoing evolution from a transaction-driven sales organization to one that is client-focused and market-driven, we established an Office of Chairman and an Office of the Chief Executive. In the Office of the Chief Executive, Vice Chairman Steve Hammerman and I are joined by Herb Allison, Dave Komansky and Launny Steffens. Along with our Board, this group is responsible for managing our corporation and our major business groups, and for serving clients by ensuring seamless integration across product lines and geographic boundaries.

In the Office of Chairman, Mr. Hammerman and I are joined by Barry Friedberg, John Heimann and Tom Patrick. This office elevates client focus to the highest executive levels of the company, bringing to bear the full experience and resources of senior management on behalf of clients.

Merrill Lynch also has an important obligation to act as a leading advocate for public policies affecting our clients, our industry and the public. We have supported and will continue to advocate free and open trade between nations as the surest path to economic growth and development around the world.

MERRILL LYNCH & CO., INC.

EXECUTIVE MANAGEMENT COMMITTEE

Herbert M. Allison, Jr.
Paul W. Critchlow
Barry S. Friedberg
Edward L. Goldberg
Stephen L. Hammerman
John G. Heimann
Jerome P. Kenney
David H. Komansky
Daniel T. Napoli
Thomas H. Patrick
Winthrop H. Smith, Jr.
John L. Steffens
Roger M. Vasey
Patrick J. Walsh
Joseph T. Willett
Arthur Zeikel

In addition, we continued to advocate solutions to the critical need for increased personal saving in the United States. Our study, *Saving the American Dream*[SM], reveals that the low U.S. savings rate could leave 46 million members of the Baby Boom generation with retirement living standards lower than today's retirees. Merrill Lynch will remain a strong public supporter of revitalized Individual Retirement Accounts and reduced taxation of long-term capital gains to help individuals and the nation prepare for the future.

We continue to develop policies that enhance our company's standing as an employer of choice and a good corporate citizen — including new work/family programs that place us in the forefront of our industry and other initiatives consistent with our longstanding commitment to community service. We also continue to pursue policies to promote diversity in our work-

force, critical to ensuring that our company remains capable of attracting and retaining the very best people in support of our clients.

After three consecutive years of record profits, we are particularly mindful that the law of market cycles can never be repealed. Our aim is a higher range of earnings across market cycles — "higher lows" to go with our "higher highs" of recent years. To achieve this, we have diversified our revenue stream, broadened our client base, increased fee-based revenues, and made management of costs and risks a permanent part of our culture.



Above all, we will not permit complacency to compromise our success or that of our clients. Our reputation for integrity — the Merrill Lynch "Tradition of Trust" — remains our company's most important asset. We will continue to protect that asset with strong internal law and compliance systems, and by ensuring that the success of all our employees is tied to that of our clients and shareholders.

We are determined to build on Merrill Lynch's unique dual franchise in individual and institutional markets to reward clients, shareholders and employees. We remain confident that we have the strategies, the financial strength, the reputation and the people to succeed in these efforts, and to enhance our role as our clients' trusted global advisor.

Daniel P. Tully

DANIEL P. TULLY
Chairman and Chief Executive Officer

March 1, 1994



THE AMERICAS

GLOBAL INVESTMENT OUTLOOK

OUR FINANCIAL CONSULTANTS FOCUS ON ESTABLISHING LONG-TERM RELATIONSHIPS WITH CLIENTS HELPING THEM ALLOCATE AND MANAGE ASSETS, BASED ON A PLAN, TO DELIVER THE PERFORMANCE THEY NEED FOR A LIFETIME OF CHANGING OBJECTIVES.

With the historic enactment of the North America Free Trade Agreement and the prospect of broadening the agreement to include other Latin American countries, the Americas are becoming the model of a global marketplace. Corporations and institutions will require a trusted advisor, as they seek access to this new global marketplace.

At the same time, the aging of the U.S. population will soon compel increased saving and investing to finance retirement and other goals. Individuals also will seek a trusted advisor to help them chart their course.

CLIENT FOCUS

The client is the driving force behind what we do.

Private Client Services

The growth in our client assets to over half a trillion dollars reflects our success in implementing a strategy developed a decade ago. Our Financial Consultants (FCs) focus on establishing long-term relationships with clients — helping them allocate and manage assets, based on a plan, to deliver the performance they need to meet a lifetime of changing objectives, rather than concentrating on short-term results.

Our client-focused approach is evident in our commitment to helping clients "grow rich slowly." An example: Asset Power®, a pricing alternative introduced nationally in 1993, allows our clients to pay a quarterly fee based on the value of their assets in lieu of commission charges for individual transactions.

Our commitment has always begun with giving our FCs the most extensive training in the industry and with educating clients about the full array of investment alternatives. In 1993, almost half of our FCs — including many of our most experienced people — participated in training programs. We also conducted nearly 8,000 seminars for clients.

OUR COMMITMENT HAS ALWAYS BEGUN WITH GIVING OUR FINANCIAL CONSULTANTS THE MOST EXTENSIVE TRAINING IN THE INDUSTRY.

Using our innovative Financial Foundation® service, FCs work with the client to create a financial profile and a plan to accomplish their objectives. In implementing this plan, the FC calls upon dedicated specialists in such areas as mortgages and credit, insurance, estate planning, trusts, and small business and employee benefit services.

Our FCs today assist growing numbers of investors in choosing professional asset management services, including mutual funds and private accounts managed by Merrill Lynch Asset Management (MLAM).

Using our innovative Financial Foundation® and Wealth Transfer Planning services, FCs and specialists work with clients to create a financial profile and to accomplish estate planning and other objectives.



According to *Smart Money* magazine, MLAM has the best long-term performance among securities firm fund families.

FCs also help clients select and monitor professional investment managers through our Merrill Lynch Consults® service, which grew 38% during the year to $16.9 billion.

Among the reasons for growth in our advisory and asset management services are the expanding opportunities in the global marketplace. The portion of our clients' assets invested internationally climbed to 9.2% last year. By the end of the decade, we believe it will reach 20%.

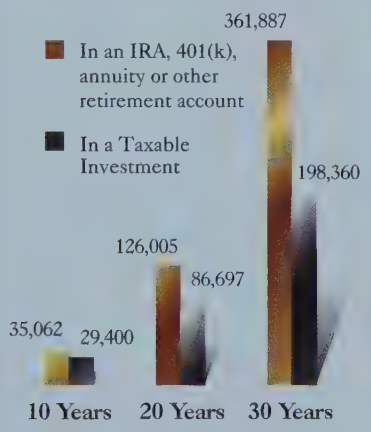
Our clients significantly expanded their holdings of MLAM's global and international funds, such as Merrill Lynch Dragon, Developing Capital Markets, Latin America, Pacific, Euro and Global Allocation Funds. All of these portfolios received significant media attention for their outstanding performance achievements in 1993.

Our Defined Asset Funds℠ include professionally selected portfolios like the Select Ten International Series, which hold high-yielding stocks from Hong Kong's Hang Seng Index, the London Financial Times Ordinary Share Index and the Dow Jones Industrial Average.

Clients also benefit from our leadership in offering new global investment opportunities and innovations. Last year's groundbreaking offering of Global Telecommunications Market Index Target Term Securities℠ (MITTS®) gave investors unique participation in the rapidly growing global telecommunications industry.

THE POWER OF TAX-DEFERRED COMPOUNDING

$2,000 Invested Annually at 10%*



** This chart assumes a hypothetical $2,000 annual investment at the stated rate of return with the earnings from the taxable investment taxed annually at 31%. Retirement account amounts are shown before taxes. Earnings and deductible contributions will be taxed upon withdrawal at the tax rate in effect at that time.*

As the leading underwriter and distributor of municipal securities, we believe we maintain the largest and most diverse selection of tax-exempt municipal bonds on Wall Street. We bring clients superior market intelligence and research—for example, providing timely analysis of last year's new tax law, as well as advance notification of bond calls and sophisticated municipal portfolio strategy services for high-net-worth investors.

We also help clients manage the liability side of their balance sheets through an expanding line of innovative and cost-effective mortgage and personal credit instruments offered by Merrill Lynch Credit Corporation.

Merrill Lynch Insurance Group Inc., through its insurance subsidiaries, helps clients fund their retirements and preserve their estates, primarily through variable annuity and variable life insurance products, with underlying assets managed by MLAM.

The Merrill Lynch Trust Companies provide comprehensive personal trust services in 36 states, including directed accounts, managed trusts, charitable remainder trusts, full fiduciary services, and detailed financial and estate planning.

WE ALSO HELP CLIENTS MANAGE THE LIABILITY SIDE OF THEIR BALANCE SHEETS THROUGH AN EXPANDING LINE OF INNOVATIVE AND COST-EFFECTIVE MORTGAGE AND PERSONAL CREDIT INSTRUMENTS.

International Private Banking

The strong, longstanding presence of our International Private Banking Group in Latin America provides our high-net-worth clients in the region with a full array of global investment opportunities, discretionary asset management and private banking capabilities — including the services of our Swiss bank and international trust companies.

Small and Mid-Sized Business Services

Merrill Lynch is a leader in offering small and mid-sized businesses a full array of services throughout their business life cycles. More than 400,000 business accounts have entrusted us with over $105 billion in assets.

To help business owners run their businesses more effectively, our FCs can call on trained product specialists in areas from cash management and financing to investments and ERISA-qualified and non-qualified retirement planning.



As businesses mature, our FCs and specialists help owners achieve their financial goals through valuation and sale of their businesses, and through additional business advisory services.

Retirement and Employee Benefit Services

Last year, we provided retirement plan services to more than 77,000 business clients with assets of over $43 billion. This included some 2,400 small and mid-sized 401(k) plans that chose Merrill Lynch Asset Management mutual funds for their plan participants — up 89% over 1992.

In 1993, we served over 1.1 million employees and handled over four million phone calls through our employer-sponsored savings plans. More than 30 large corporate 401(k) sponsors selected Merrill Lynch as a plan provider — including Mobil Corporation, The Kroger Company and Pennzoil Company.

Among the reasons corporations choose our employee benefit services are our comprehensive employee education materials, our performance-based standards, and our ability to anticipate plan sponsor and participant needs. Examples of our client responsiveness include improved handling of participant phone inquiries — with an average response rate of less than 20 seconds — and timely reporting to participants and plan sponsors.

MORE THAN 400,000 SMALL AND MID-SIZED BUSINESS ACCOUNTS HAVE ENTRUSTED US WITH OVER $105 BILLION IN ASSETS.



Our clients significantly expanded their international holdings through such top-rated proprietary MLAM funds as Merrill Lynch Dragon Fund and Merrill Lynch Latin America Fund.

RESPECT FOR THE INDIVIDUAL

We respect the dignity of each individual, whether an employee, shareholder, client or member of the general public.

To serve the needs of our institutional clients, it is not enough to be the leading underwriter, the leading block trader, the leader in research or the leader in derivatives. We must also bring added value to our clients in the quality of our advice. We offer an integrated approach, bringing skill and resources, coupled with the attention and service of small, focused teams with thorough knowledge of the markets, the client's industry and the client.

One reason for our continued leadership in underwriting is our emphasis on long-term client relationships. More than half of the equity transactions we lead managed (excluding initial public offerings) were on behalf of existing clients. One example: our capital raising activities for Time Warner Inc. and related entities. We helped them raise $899 million in a LYONs® issue in 1993, our second sole-managed equity-linked offering for this client in six months. Time Warner Inc. also chose Merrill Lynch to lead manage five debt transactions totaling $3.15 billion.



A team of professionals in Operations, Systems and Telecommunications work continuously to provide the technological innovation needed to deliver client service of the highest quality.

While the firm lead managed more landmark transactions than any of our competitors during the year, we are also extremely proud of our role in helping to finance small and mid-sized companies. By working in small dedicated teams, we provide tailored services for these clients. An example: the firm completed two offerings for Hospitality Franchise Systems, Inc. in 1993, continuing a relationship with the company that began with their successful IPO in 1992.

Merrill Lynch was the No. 1 underwriter of IPOs with $12.8 billion. We lead managed a $546 million offering for Wellpoint Health Networks Inc., the largest IPO of a managed care company. We also dominated the underwriting of real estate investment trusts (REITs), lead managing $4.5 billion in offerings during the year for a 36% market share. Among them was a

With Latin America among the fastest growing regional economies, Merrill Lynch has helped clients tap into growing investor confidence in the region.

$966 million REIT for Simon Property Group, Inc., the largest ever and an *Investment Dealer's Digest* "Deal of the Year."

Nowhere is the value of our approach more apparent than in our strategic advisory services. Among M&A transactions valued at more than $1 billion in 1993, we served as advisor to such clients as The Cincinnati Gas & Electric Company, GTE Corporation and WMX Technologies, Inc. We also represented The Travelers in its merger with Primerica, Columbia Healthcare Corporation in its acquisition of HCA-Hospital Corporation of America, and KMart Corporation in its divestiture of PayLess Drug Stores Northwest, Inc.

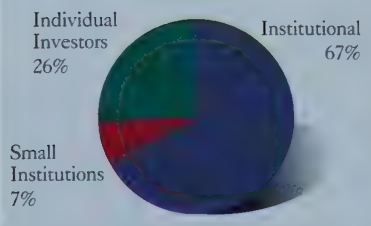
In fixed-income securities, we continued to build on our leadership positions in virtually all categories — including investment-grade and high-yield debt, preferred stock, commercial paper, medium-term notes, asset-backed, mortgage-backed and municipal securities. In new issue investment-grade debt alone, Merrill Lynch's volume was $83 billion, as compared to $67 billion in 1992. In the high-yield debt market, Merrill Lynch was the leading underwriter with a 24% market share versus our nearest competitor with 15%. Key issuers included NEXTEL Communications, Inc., Bally's Grand, Inc. and Kaiser Aluminum Corporation.

Two groundbreaking transactions lead managed by our firm were also named "Deals of the Year": a $300 million Alternative Credit Enhancement Structure for the Federal National Mortgage Association was cited by IDD, and a $200 million public issue backed by revolving loans to small businesses for Fremont Financial Corporation was recognized by *Institutional Investor.*

With Latin America among the fastest growing regional economies, Merrill Lynch has helped clients tap into growing investor confidence in the region. Among the year's highlights were a $3 billion IPO for YPF Sociedad Anónima and a $171 million ADR for Banco Frances Del Rio de la Plata S.A., both in Argentina; a $353 million equity offering for Mexico's Grupo Carso, S.A. de C.V.; a $46 million ADS offering for Venezuela's Mavesa, S.A., and an $81 million Rule 144-A ADS for Colombia's Banco Ganadero S.A.

Merrill Lynch helped the Republic of Argentina launch a $1 billion

Merrill Lynch Distribution of Equity & Equity-Linked Issues*



**Excludes closed-end funds and Rule 144a issues.*

global bond offering, the first by an emerging markets issuer. We also lead managed a $325 million global MTN for Banco Nacional de México (Banamex), the first global commercial paper transaction denominated in pesos.

Merrill Lynch was very active in serving Canadian corporate and provincial clients as well, raising more than $5.8 billion in the international equity and debt markets for Canadian issuers in 1993. Using our global distribution capabilities, the firm helped place Canadian dollar global bond offerings for the provinces of Ontario, Quebec and British Columbia.



Institutional Investor Services

As the leading block trader according to Autex, Merrill Lynch's volume was more than twice that of its nearest competitor, and the firm leads the industry in block trading in 30 industries.

To meet their investment objectives, our institutional clients increasingly cross not only geographic borders but also the boundaries between debt and equity markets. Merrill Lynch's sales force has extensive cross-training to help advise them.

Institutional investor conferences focusing on the Asia/Pacific and Latin American regions as well as on South Africa, Italy, Japan and China further exemplify our commitment.



Among our strategic advisory assignments was our role in assisting Columbia Healthcare Corporation in its acquisition of HCA-Hospital Corporation of America.



EUROPE AND THE MIDDLE EAST

MERRILL LYNCH WORKED WITH A RECORD NUMBER OF EUROPEAN CORPORATIONS, FINANCIAL INSTITUTIONS, SOVEREIGN GOVERNMENTS AND AFFILIATES IN RAISING CAPITAL AND PROVIDING STRATEGIC ADVICE.

The year was marked by a number of major developments in the European economy: the growing wave of privatizations, record issuance in the Euromarkets, the further opening of domestic capital markets to foreign issuers and investors, and the continued restructuring of European industry. These developments occurred against a background of recession from which the major economies are now beginning to emerge.

As the leading underwriter in the U.S. and worldwide, Merrill Lynch worked with a record number of European corporations, financial institutions, sovereign governments and affiliates in raising capital and providing strategic advice.

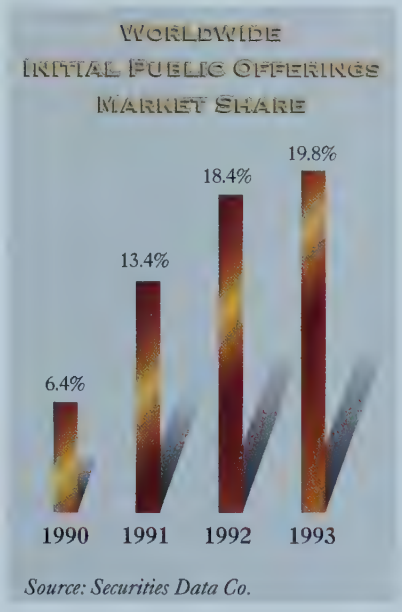
As European corporations look beyond their own borders for investment capital, they increasingly call upon Merrill Lynch for assistance. In early 1994, we served as co-book-running lead manager with CJ Lawrence-Deutsche Bank of a $806 million ADS for Daimler-Benz, the first registered equity offering in the U.S. by a German company.

AS EUROPEAN CORPORATIONS LOOK BEYOND THEIR OWN BORDERS FOR INVESTMENT CAPITAL, THEY INCREASINGLY CALL UPON MERRILL LYNCH FOR ASSISTANCE.

In 1993, we helped clients in ten European countries raise over $5 billion in equity and equity-linked capital. We maintained our leadership positions in convertibles and preferred stock. Notable transactions included the $1.42 billion privately placed LYONs® issue for Swiss-based Roche Holdings, Inc.; the DM 216.6 million ARBED LYONs issue; and the £75.6 million convertible bond issue for Coats Viyella. We also lead managed major preferred stock issues for Lasmo PLC, National Westminster Bank PLC and Carlton Communications PLC in the U.K., and Elf Aquitaine, Crédit Lyonnais and Rhône-Poulenc in France.

Merrill Lynch has played a major role in European privatizations. In France, we have been prominently involved in three of the four completed, including the Banque Nationale de Paris privatization, where we lead managed the successful $103 million U.S. tranche. In early 1994, we lead managed the U.S. offering and acted as senior co-manager of the global offering for the Elf Aquitaine privatization, the largest to date. In Italy, we served as lead manager for the successful $104 million U.S. tranche of the Italian Government's privatization of Credito Italiano.

Merrill Lynch further expanded its presence in the sovereign bond markets. In Scandinavia, we successfully launched debt issues for the governments of Sweden (notably a $1.5 billion floating rate note issue), Norway and Finland (for whom we lead managed a $1 billion addition to the $2 billion bond issue completed in 1992). We acted as joint lead under-





With 23 offices throughout Europe and the Middle East, our International Private Banking Group serves as a trusted advisor to a select but growing clientele.

writer on the inaugural $1 billion offering for the Republic of Portugal. The firm also served as lead manager of a $500 million Eurobond offering for the Kingdom of Belgium.

A growing number of European banks look to us for capital raising and strategic advice. In Germany, we were the largest underwriters of collared floating rate notes with ten transactions totaling over $1 billion for six German banks. In Scandinavia, we successfully reopened the perpetual debt market for bank borrowers, with Yen private placements for Nordbanken and Union Bank of Norway. In Spain and Portugal, we lead managed equity transactions for Banco Central Hispanoamericano and Espírito Santo Financial Holdings SA. We also advised the Government of Spain on the global offering of shares in Argentaria (Corporación Bancaria de España).

MERRILL LYNCH DERIVATIVE PRODUCTS, INC. WAS ABLE TO SIGNIFICANTLY EXPAND ITS CLIENT BASE AND PRODUCT LINE TO INCLUDE A FULL RANGE OF INTEREST RATE AND CURRENCY DERIVATIVE PRODUCTS.

As structural changes take place in Europe, Merrill Lynch's experience as a strategic advisor is increasingly valued. The firm played an important advisory role in the $1.22 billion sale by the Finnish Government of the Savings Bank of Finland to four of the country's banks.

Diverse Global Services

Merrill Lynch Derivative Products, Inc., our triple-A-rated subsidiary, continued to play an important role in the success of our capital markets business. In 1993, MLDP was able to significantly expand its client base and product line to include a full range of interest rate and currency derivative products while increasing the number of markets traded.

The company significantly expanded its presence in markets throughout Europe. We continued to increase our activities in Germany, where

Merrill Lynch Bank AG extended our franchise in DM underwriting of corporate and government bonds. We have become one of the largest underwriters of Swiss franc securities and are the most active foreign firm in the Swiss capital markets. We have been approved by the French Tresor to lead manage Euro franc issues and advised the Tresor in the deregulation of the French franc EMTN market. In early 1994, Merrill Lynch became a Gilt Edged Market Maker in the United Kingdom.

TEAMWORK

We strive for seamless integration of services. In the clients' eyes, there is only one Merrill Lynch.

International Private Banking

Our International Private Banking Group's expanding network of more than 800 Financial Consultants and Private Bankers, about half of whom are based in our 23 offices throughout Europe and the Middle East, serve as trusted advisors to a select but growing clientele of international investors. We provide a comprehensive range of private banking services and multicurrency, multimarket investment opportunities, backed by our superior research and personal service.

The firm's success in building a top private banking institution was reflected in last year's 27% growth in private banking client assets to more than $27 billion. In 1993, international client assets under management by offshore Merrill Lynch Asset Management mutual funds, futures funds and discretionary managed assets at Merrill Lynch Bank (Suisse) S.A. increased 97% to $10.19 billion. MLAM is the largest U.S. manager of offshore funds.

To better serve our clients and accommodate business expansion, we are combining our merged brokerage and private banking activities in the U.K. in new headquarters on Chester Street in the Belgravia area of London.



We maintained our leadership in convertible and preferred stock issuance with such transactions as the $1.42 billion privately placed LYONs® offering for Roche Holdings, Inc.



ASIA/ PACIFIC

OUR MORE THAN 45 YEARS OF EXPERIENCE IN THE ASIA/ PACIFIC REGION MAKES MERRILL LYNCH IDEALLY QUALIFIED TO HELP CLIENTS BENEFIT FROM EXPANDING OPPORTUNITIES THERE.

The Asia/Pacific region has the world's fastest growing economies, with estimates that the People's Republic of China (PRC) alone may account for half the growth in world trade between now and the end of the century.

Active in the region for more than 45 years, Merrill Lynch is ideally positioned to help clients benefit from opportunities in established economies like Japan and Australia, as well as rapidly developing ones like India, Indonesia, Thailand and the PRC, where we began building relationships 20 years ago.

RESPONSIBLE CITIZENSHIP

We seek to improve the quality of life in the communities where our employees live and work.

Japan

As the first foreign securities firm to enter Japan more than 30 years ago, Merrill Lynch is an integral part of the country's financial community. For a seventh straight year, *Nihon Keizai Shimbun*, Japan's leading financial daily, named Merrill Lynch the foreign securities firm of choice among corporate executives.

For the past three years, we have worked closely with our Japanese clients and the Ministry of Finance to help open direct access to offshore debt markets through establishment of MTN programs. In 1993, we arranged the first such program, with a $2.5 billion Euro MTN by Itochu Corporation and two of its subsidiaries, followed closely by a $3 billion MTN program by Kansai Electric Power Co., Inc.

In the Eurobond market, Merrill Lynch, acting as co-lead manager, launched the largest corporate offering ever — a $1.5 billion bond for Toyota Motor Corporation.

IN ASIA'S HIGH-GROWTH ECONOMIES, WE CONTINUE TO STRENGTHEN OUR RELATIONSHIPS WITH SOVEREIGN AND CORPORATE CLIENTS, PRIVATE CLIENTS AND OFFSHORE INVESTORS.

Australia

The firm lead managed the $160 million IPO of Amway Asia Pacific Ltd., a global offering listed on the Australian and New York Stock Exchanges, a pan-Asian transaction which financed parent Amway Corporation's entry into the People's Republic of China. Merrill Lynch International (Australia) Limited acted as strategic advisor to New Zealand's Tower Corporation Holdings, Ltd. We also lead managed a Rule 144-A LYONs® issue for News Corp. that raised $507 million in proceeds.

MERRILL LYNCH IS IDEALLY QUALIFIED TO SERVE THE GROWING NUMBERS OF HIGH-NET WORTH INDIVIDUALS AND ENTREPENEURS IN THE ASIA/PACIFIC REGION.

Asia's High-Growth Economies

In Asia's high-growth economies, we continue to strengthen our relationships with sovereign and corporate clients, private clients and offshore investors. Building on many years of experience with Korean issuers, Merrill Lynch lead managed a $150 million common stock issue on behalf of Samsung Electronics Co., Ltd., for whom we had previously managed the largest ever Korean convertible issue. We also lead managed a $400 million debt offering for the Korea Development Bank, our third for this institution.

Elsewhere, we lead managed transactions as varied as a $67 million ordinary share issue for Indonesia's Semen Cibinong PT and a $65 million convertible offering for India's Essar Gujarat.

Our company is the leading overseas investment bank in the People's Republic of China, where ongoing relationships have enabled us to negotiate and close 19 major transactions totaling $23 billion since 1992. Early 1994 saw the successful worldwide distribution of a $1 billion global note offering lead managed by Merrill Lynch for the Chinese Government.

Merrill Lynch's global coordination of Shanghai Petrochemical Company Limited's $343 million IPO was the first simultaneous listing on the New York and Hong Kong Exchanges by a Chinese company. The issue required close coordination and drew upon the talent and resources of

Merrill Lynch's global coordination of Shanghai Petrochemical Company Limited's $343 million IPO was the first simultaneous listing on the New York and Hong Kong Exchanges by a Chinese company.



the Merrill Lynch team on three continents.

The People's Republic is becoming a major issuer of debt, driven by an ever-growing need for capital and improved credit ratings. In 1993, Merrill Lynch advised the Ministry of Finance in preparing presentations to Moody's Investor Services and to Fitch. We were pleased that the Ministry was successful in obtaining credit upgrades from both agencies.



For Toyota Motor Corporation Merrill Lynch co-lead managed a $1.5 billion Eurobond issue the largest corporate offering

Merrill Lynch became the first U.S. securities firm with an office in the People's Republic, opening a representative office in Shanghai last spring. We also hosted two dozen of the country's financial executives for an intensive eight-week course on the U.S. securities markets.

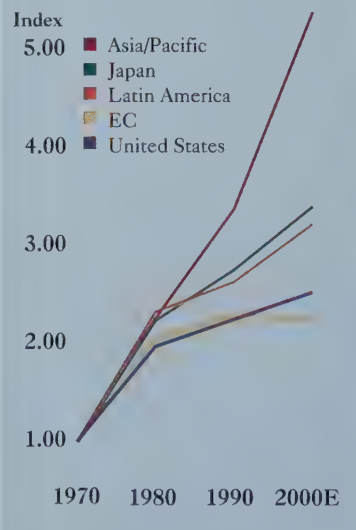
Elsewhere in the region, Merrill Lynch opened a new representative office in Bangkok. We lead managed a unique derivative issue of 1.6 million call warrants pegged to the Hong Kong 30 Index and listed on the American Stock Exchange. We were the leading trader of Asian ADRs, with 48.8% market share.

International Private Banking

Merrill Lynch is ideally qualified to serve the growing numbers of high-net-worth individuals and entrepreneurs in the Asia/Pacific region with full and active asset and liability management services. Our Private Bankers and Financial Consultants are committed to providing the highest level of personal service, including trust and Swiss banking services and access to global investment opportunities. Our recently integrated brokerage and private banking branch in Singapore continues to show exceptionally strong growth, as do our offices in Hong Kong, Taiwan and Sydney.

REGIONAL COMPARISON OF ECONOMIC GROWTH

(Real GDP Growth)



Based on an index with 1970=1.00

Source: Merrill Lynch International Economics Research

1993 ACHIEVEMENTS

INDIVIDUAL CLIENTS

Total assets held in Merrill Lynch client accounts rose 12.5% to $536 billion.

Merrill Lynch Asset Management had the best long-term performance among securities firm fund families in an analysis by *Smart Money* magazine.

Assets under management by MLAM rose 16% to $160 billion, as MLAM introduced 40 new funds and added approximately 1,000 discretionary private accounts.

Total holdings of MLAM international and global mutual funds by U.S. investors increased 81.8% to $21.4 billion. Assets invested by international investors in offshore MLAM funds rose to $4.8 billion, making MLAM the largest U.S. manager of offshore funds.

The percentage of client assets invested internationally climbed to 9.2%. We believe it will reach 20% by the year 2000.

Merrill Lynch Consults® assets under management increased 38% to $16.9 billion.

Over 5,600 Financial Consultants participated in training programs in 1993, including a program on managing a portfolio for performance attended by 1,700 top FCs and branch managers.

The number of financial plans prepared through our state-of-the-art Financial Foundation® service increased almost 100% to 77,000 plans.

The number of our central asset accounts has reached 1.8 million. In 1993, we successfully introduced the CMA® Master Financial℠ service — an efficient, cost-effective way to segregate assets for various financial needs.

Merrill Lynch holds more retirement plan assets than the top 140 commercial banks combined. In 1993, IRA assets at Merrill Lynch rose 16% to $79.3 billion.

Mortgage originations under our PrimeFirst® and Mortgage Portfolio programs totaled $1.4 billion, while $1.6 billion in Equity Access® credit lines were outstanding. We introduced the OMEGA℠ credit account, a cost-effective, securities-based personal line of credit.

Our Merrill Lynch Funds Retirement Plus® variable annuity generated premiums of $1.5 billion.

International Private Banking client assets increased 27% to $27 billion, as international trust assets climbed 77% and assets under professional management rose 97%.

Small and Mid-Sized Businesses and Employee Benefit Clients

- Businesses have entrusted us with more than $105 billion in assets in over 400,000 accounts.
- Assets in our 108,000 Working Capital Management℠ (WCMA®) accounts increased 12% to $33.6 billion. Loan commitments grew 32% to $960 million, with $85 million in additional financings arranged through outside sources.
- We performed valuations of more than 140 companies with business assets of over $8.4 billion.
- Assets in the 2,500 401(k) plans serviced by Merrill Lynch more than doubled to $17 billion.
- Employee Stock Purchase Plan corporate clients grew by over 13% to nearly 300, representing approximately 2.3 million eligible employees.
- We provided broad-based Employee Stock Option Plan services to over 350,000 participants in more than 45 countries and produced participant statements in six foreign languages.

Large Corporations and Institutional Clients

- Merrill Lynch ranked #1 in Global Debt and Equity underwriting for the fifth consecutive year and #1 in U.S. Domestic Debt and Equity underwriting for the sixth consecutive year.
- Merrill Lynch ranked #1 in Worldwide Equity and Equity-linked offerings, bringing to market US$26.7 billion (including closed-end funds).
- We remained the #1 underwriter of Worldwide and U.S. Domestic Debt, including high-grade and high-yield debt and preferred stock (nonconvertible).
- Our company was the top-ranked firm in listed block and ADR trading as well as a market leader in NASDAQ trading.
- Our Government Trading desk executed a record volume of transactions, solidifying its position as a leading dealer in government securities. Average daily volume was over $17.0 billion as compared with over $13 billion in 1992.
- Merrill Lynch was named "Equity House of the Year" by *International Financing Review*.

In *Euromoney's* annual poll of major securities issuers worldwide, Merrill Lynch won top honors in the Capital Raisers category. Merrill Lynch was also voted the best investment bank at raising capital in the U.S. public markets and the best in Medium-Term Notes, both in Europe and the U.S.

We continue to be a leader in swaps and debt and equity derivative products. Merrill Lynch Derivative Products, Inc. concluded its second full year of operations with 233 counterparties, a notional principal of $59.2 billion and 1,624 transactions.

Merrill Lynch took top honors in the 1993 *Institutional Investor* All-America Research Team rankings. ML industry analysts held a total of 56 team positions. In *The Wall Street Journal* list of All-Star Analysts, Merrill Lynch captured the most positions with 20.

Merrill Lynch ranked #1 in Worldwide Public and Private offerings and completed a total of 101 merger and acquisition transactions totaling $30 billion during the year.

We remained #1 in Worldwide Public and Private Offerings for Financial Institutions and continue to be a leading advisor to these institutions in mergers and acquisitions, as well as raising capital.

Financial Review

The Merrill Lynch Principles—

Client Focus

Respect for the Individual

Teamwork

Responsible Citizenship

and Integrity—

Have endured despite

competitive pressures and

changing markets.

The Principles have helped

create the financial strength

that Merrill Lynch uses

to meet the needs of clients,

stockholders, employees and

the public.

Enhancing Stockholder Value

Integrity

No one's personal bottom line is more important than the reputation of our firm.

Over the past several years, Merrill Lynch has taken a number of steps to improve profitability and enhance stockholder value. We have sought to strengthen our capital base, improve our credit and risk management controls, decrease our illiquid long-term assets, diversify our sources of liquidity, and focus on our core businesses.

Employee Incentives

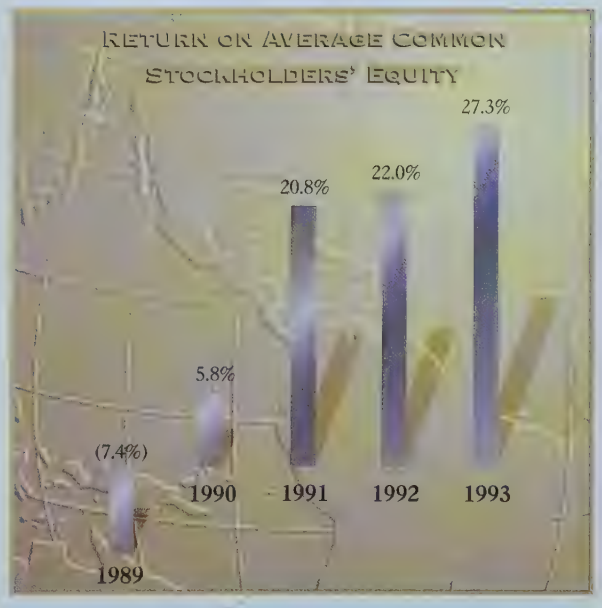
We have aligned the interests of employees with those of stockholders, by focusing employees on controlling costs and by linking incentive compensation to earnings and return on equity.

Balancing Returns with Risks

For each of our major businesses, risk-adjusted returns are calculated through a process that considers the risk-based equity requirements of the particular business. This equity requirement—which is based on coverage of market, credit, and other risk exposures—then becomes the benchmark used to determine whether the potential returns of the business across market cycles justify the risks inherent in the business.

True Profit, Not Nominal Profit

Along with risk-adjusted return, each business is judged on the basis of its economic profit—the profit in excess of the cost of the equity capital needed to run that particular business. Through these two performance measures, Merrill Lynch evaluates each of its businesses using much the same criteria that investors use in evaluating a company's stock. In this way, we link our business decisions to the goal of increasing stockholder value.



Capital Strength

Merrill Lynch is one of the most highly capitalized U.S. securities corporations. We maintain a level of equity adequate to meet the cumulative risk-adjusted requirements for our various businesses and product groups, whether on- or off-balance sheet. Our capital strength is a fundamental factor underlying our assessment of new growth opportunities, our share repurchase program, and our dividend policy.

Selected Financial Data

(Dollars in Thousands, Except Per Share Amounts)	1993 (53 Weeks)	1992 (52 Weeks)	1991 (52 Weeks)	1990 (52 Weeks)	1989 (52 Weeks)
					Year Ended Last Friday in December
Operating Results					
Revenues	$ 16,588,177	$ 13,412,668	$ 12,352,812	$ 11,147,229	$ 11,273,223
Interest Expense	6,029,947	4,835,267	5,106,344	5,363,900	5,371,028
Net Revenues	10,558,230	8,577,401	7,246,468	5,783,329	5,902,195
Non-Interest Expenses	8,133,422	6,956,012	6,229,050	5,501,001	6,060,581
Earnings (Loss) Before Income Taxes, Cumulative Effect of Changes in Accounting Principles and Discontinued Operations	2,424,808	1,621,389	1,017,418	282,328	(158,386)
Income Tax Expense	1,030,449	668,984	321,301	90,472	58,980
Earnings (Loss) Before Cumulative Effect of Changes in Accounting Principles and Discontinued Operations	$ 1,394,359	$ 952,405	$ 696,117	$ 191,856	$ (217,366)
Net Earnings (Loss)	$ 1,358,939	$ 893,825	$ 696,117	$ 191,856	$ (213,385)
Net Earnings (Loss) Applicable to Common Stockholders	$ 1,353,558	$ 887,486	$ 678,392	$ 167,932	$ (235,401)
Financial Position					
Total Assets	$152,910,362	$107,024,173	$ 86,259,343	$ 68,129,527	$ 63,942,263
Short-Term Borrowings *(a)*	$ 79,632,477	$ 51,179,530	$ 38,697,544	$ 27,340,915	$ 28,558,220
Long-Term Borrowings	$ 13,468,900	$ 10,871,100	$ 7,964,424	$ 6,341,559	$ 6,897,109
Total Stockholders' Equity	$ 5,485,913	$ 4,569,104	$ 3,818,088	$ 3,225,430	$ 3,151,343
Tax Information					
Other Taxes, Principally Payroll and Property	$ 223,377	$ 221,930	$ 191,291	$ 169,457	$ 177,780
Total Taxes *(b)*	$ 1,253,826	$ 890,914	$ 512,592	$ 259,929	$ 236,760
Common Share Data					
Primary:					
Earnings (Loss) Before Cumulative Effect of Changes in Accounting Principles and Discontinued Operations	$ 6.14	$ 4.18	$ 3.01	$.80	$ (1.18)
Net Earnings (Loss)	$ 5.98	$ 3.92	$ 3.01	$.80	$ (1.16)
Fully Diluted:					
Earnings (Loss) Before Cumulative Effect of Changes in Accounting Principles and Discontinued Operations	$ 6.11	$ 4.17	$ 2.95	$.80	$ (1.18)
Net Earnings (Loss)	$ 5.95	$ 3.91	$ 2.95	$.80	$ (1.16)
Book Value	$ 26.17	$ 21.37	$ 17.88	$ 14.99	$ 14.26
Total Taxes *(b)*	$ 5.54	$ 3.94	$ 2.27	$ 1.23	$ 1.16
Dividends Paid	$.70	$.575	$.50	$.50	$.50
Weighted Average Shares Outstanding:					
Primary	226,331,000	226,402,000	225,350,000	211,052,000	203,718,000
Fully Diluted	227,480,000	226,854,000	229,916,000	211,052,000	203,718,000
Shares Outstanding at Year-End *(c)*	203,989,691	207,202,688	205,443,636	199,669,270	205,382,754
Financial Ratios					
Pretax Margin *(e)*	23.0%	18.9%	14.0%	4.9%	(d)
Profit Margin *(f)*	13.2%	11.1%	9.6%	3.3%	(d)
Common Dividend Payout Ratio	10.9%	13.5%	15.2%	61.8%	(d)
Return on Average Assets	1.0%	0.8%	0.8%	0.3%	(d)
Return on Average Common Stockholders' Equity	27.3%	22.0%	20.8%	5.8%	(7.4)%
Leverage	27.4x	25.1x	24.1x	22.9x	20.2x
Adjusted Leverage *(g)*	16.6x	15.9x	16.3x	15.3x	13.8x
Other Statistics					
Number of Full-Time Employees	41,900	40,100	38,300	39,000	41,200
Number of Financial Consultants and Account Executives	13,100	12,700	12,100	11,800	12,300
Number of Sales Offices:					
Domestic	460	460	460	460	465
International	50	50	50	50	55

(a) Short-Term Borrowings include repurchase agreements, and commercial paper and other short-term borrowings.

(b) Excludes $25,075 and $73,065 of income taxes in 1993 and 1992, respectively, related to the cumulative effect of changes in accounting principles. Excludes income taxes of $2,883 in 1989 associated with the discontinued operations of Fine Homes International, L.P.

(c) Does not include 8,932,332, 11,201,672, 13,636,820, 16,071,968, and 18,653,462 unallocated shares held in the Employee Stock Ownership Plan at year-end 1993, 1992, 1991, 1990 and 1989, respectively, which are not considered outstanding for accounting purposes.

(d) As a result of the net loss in 1989, this ratio is not meaningful.

(e) Earnings Before Income Taxes, Cumulative Effect of Changes in Accounting Principles, and Discontinued Operations to Net Revenues.

(f) Earnings Before Cumulative Effect of Changes in Accounting Principles and Discontinued Operations to Net Revenues.

(g) Average total assets less resale agreements and securities borrowed, to average total stockholders' equity.

Management's Discussion of Financial Responsibility

Management of Merrill Lynch & Co., Inc. is responsible for preparing the financial statements and related notes contained in the Annual Report in accordance with generally accepted accounting principles. The consolidated financial statements and related notes include amounts based upon our best estimates and judgments. Other financial data included in the Annual Report are consistent with the financial statements.

Management recognizes the importance of safeguarding the Corporation's integrity and understanding the risks of the business. Therefore, Management devotes considerable attention to promoting the highest standards of ethical conduct, exercising responsible stewardship over the Corporation's assets, and presenting fair financial statements.

To achieve these objectives, Management maintains a framework of internal control standards which include policies, procedures, and organizational structure, all overseen by a predominantly independent Board of Directors.

Several committees of the Board actively participate in setting policy and monitoring controls. The Audit and Finance Committee, consisting entirely of independent directors, examines the Corporation's compliance with acceptable business standards and ethics. It also reviews significant financial issues, recommends overall policies regarding risk and funding requirements and recommends to the Board of Directors the appointment of the Corporation's independent auditors. The Management Development and Compensation Committee, also composed entirely of independent directors, oversees procedures for developing and assessing the performance of the Corporation's employees with an emphasis on ethical business behavior.

Further oversight is provided by independent Corporate units such as Audit, Credit, Risk Management, Law and Compliance. Corporate Audit reports directly to the Audit and Finance Committee and provides independent appraisal of the Corporation's internal accounting controls and its compliance with established policies and procedures.

Corporate Credit monitors credit exposure while working with the business groups in controlling overall credit risk.

Risk Management establishes parameters for market risk assumed by the Corporation. This group uses various systems and procedures to monitor positions and risks. In addition, Risk Management has clear authority to enforce trading limits.

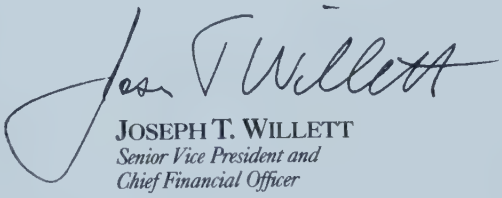
Law and Compliance serves in a counseling and advisory role to Management. In this role, these groups develop policies and monitor compliance with both internal policies and external rules and industry regulations.

Further, the Corporation's independent auditors, Deloitte & Touche, perform annual audits in accordance with generally accepted auditing standards, which include a review of the internal accounting control system.

The Corporation continually reviews its framework of controls, taking into account changing circumstances and continues to make modifications when required and cost-effective.



DANIEL P. TULLY
Chairman and
Chief Executive Officer



JOSEPH T. WILLETT
Senior Vice President and
Chief Financial Officer

Description of Business

Merrill Lynch & Co., Inc. ("ML & Co.") is a holding company that, through its subsidiaries and affiliates provides investment, financing, insurance, and related services worldwide. Its principal subsidiary, Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), is one of the largest securities firms in the world. MLPF&S is a broker in securities, options contracts, commodity and financial futures contracts, a distributor of selected insurance products, a dealer in options and in corporate and municipal securities, and an investment banking firm. Merrill Lynch Government Securities Inc. is a primary dealer in obligations issued by the U.S. Government or guaranteed or issued by Federal agencies or instrumentalities. Merrill Lynch Capital Services, Inc. and Merrill Lynch Derivative Products, Inc. are ML & Co.'s primary derivative subsidiaries which enter into interest rate and currency swaps and other derivative transactions. Merrill Lynch Asset Management manages mutual funds and provides investment advisory services. Other subsidiaries provide financial services on a global basis similar to those of MLPF&S and are engaged in such other activities as international banking, lending, and providing other investment and financing services. Insurance underwriting operations consist of the underwriting of life insurance and annuity products through insurance company subsidiaries of Merrill Lynch Insurance Group, Inc. and the sale of life insurance through Merrill Lynch Life Agency Inc. and other life insurance agencies associated with MLPF&S.

BUSINESS ENVIRONMENT

Merrill Lynch & Co., Inc. and its subsidiaries (collectively referred to as the "Corporation") conduct their businesses in global financial markets that are influenced by a number of factors including economic conditions, political events, and investor sentiment. The reaction of issuers and investors to a particular condition or event is unpredictable and can create volatility in the marketplace. While higher volatility can increase risk, it also increases order flow, which drives many of the Corporation's businesses. Other market and economic conditions, including the liquidity of secondary markets, the level and volatility of interest rates, currency and security valuations, competitive conditions, and the size, number and timing of transactions may also affect earnings. As a result, revenues and net earnings can vary significantly from year to year, and from quarter to quarter.

For the third consecutive year, securities firms in the United States posted record profits. In 1993, the securities industry continued to benefit from favorable market conditions in the U.S. and further expansion of international market activities. The combination of historically low interest rates, the continued restructuring of corporate balance sheets, steady economic improvement in the United States, and the growth in emerging market financings, particularly privatizations, contributed to robust underwriting activity. The aggregate volume of new stock and bond issues established new records both in the U.S. and worldwide. Fees generated from the underwriting of equities (including initial public offerings), high-yield bonds, and Eurobonds reached new highs industrywide.

Emerging market financings continued to grow due to the development of capital markets in countries such as China and the growing need for additional foreign capital and investment. Emerging market countries improved existing infrastructures and privatized state-owned industries through global financings. Demand for financing through privatizations, particularly in Latin America, Europe, and China remained strong and is expected to be a growing source of underwriting activity for the industry in the near term. In the second half of 1993, merger and acquisition activity rebounded, benefiting from telecommunication and health care related consolidations.

The institutional investor market remained strong and was buoyed by increasing cross-border and secondary trading activity, expanding investor portfolios, and growing mutual funds. Trading in swaps and other derivatives, including structured transactions, remained strong as investors used these products to manage interest rate and currency risks, improve yields, and diversify their investments.

Individual investors continued to diversify their holdings seeking both domestic and international investment opportunities. Investors steadily moved away from lower-yielding, short-term investments and, instead, redeployed assets into equities, corporate and municipal bonds, and an assortment of domestic and international mutual funds. Consequently, revenues from commissions, principal transactions, and fee-based services advanced as a result of increased investor activity.

The Corporation recognizes that market and economic conditions can change and continues to focus on those factors that help reduce the impact of the cyclical nature of markets on profitability. These factors include managing risks, controlling costs, expanding fee-based businesses, linking compensation to profitability, evaluating businesses based on performance criteria, and restructuring or exiting those businesses that fail to consistently achieve measurement standards and strategic objectives.

RESULTS OF OPERATIONS

Favorable markets, continued cost control, risk management, and strong market share contributed to the Corporation's record performance in 1993. Net earnings were a record $1.36 billion or $5.98 per common share primary ($5.95 fully diluted), up 52% above the $893.8 million or $3.92 per common share primary ($3.91 fully diluted) reported in 1992. In 1991, net earnings were $696.1 million or $3.01 per common share primary ($2.95 fully diluted). On October 11, 1993, the Corporation's Board of Directors declared a two-for-one common stock split, effected in the form of a 100% stock dividend, paid on November 24, 1993 (see Stockholders' Equity in the Notes to Consolidated Financial Statements). All share and per share data presented herein have been restated for the effect of the common stock split.

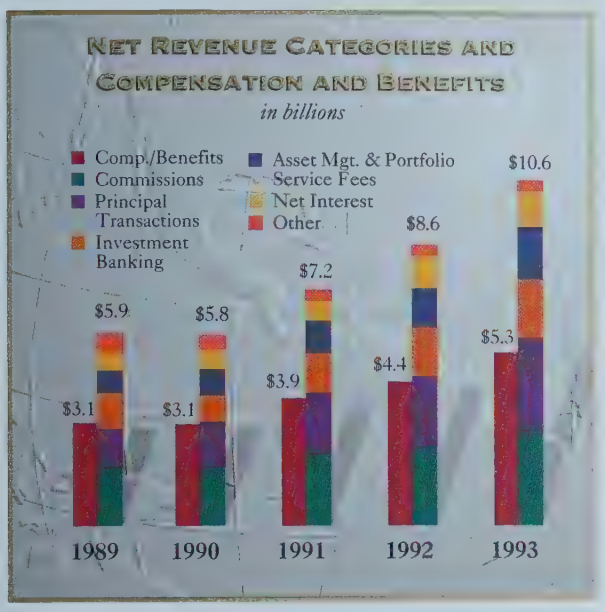
The 1993 results include the early adoption of Statement of Financial Accounting Standards ("SFAS") No. 112, *Employers' Accounting for Postemployment Benefits*. The cumulative effect of this change in accounting principle decreased 1993 earnings by $35.4 million ($60.5 million before income taxes), or $.16 per common share primary and fully diluted. Earnings before the cumulative effect charge were $1.39 billion or $6.14 per common share primary ($6.11 fully diluted).

Results for 1993 also include a non-recurring first quarter pretax lease charge totaling $103.0 million ($59.7 million after income taxes), related to the Corporation's decision not to occupy certain space at its World Financial Center Headquarters ("Headquarters") facility. This space was made available for sublease as a result of continued streamlining of operations and the declining number of employees at the Headquarters location. An agreement to sublet this space was executed in the 1993 fourth quarter.

In 1992, the Corporation adopted SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* and SFAS No. 109, *Accounting for Income Taxes*. The cumulative effect of these changes in accounting principles reduced 1992 earnings by $58.6 million or $.26 per common share primary and fully diluted. Earnings before the cumulative effect adjustment were $952.4 million or $4.18 per common share primary ($4.17 fully diluted).

Pretax earnings were a record $2.42 billion, up 50% over the $1.62 billion reported in 1992. In 1991, pretax earnings were $1.02 billion. The pretax profit margin on net revenues rose to 23.0% in 1993 from 18.9% in 1992 and 14.0% in 1991.

Total revenues for 1993 were a record $16.59 billion, advancing 24% and 34%, respectively, from those reported in the previous two years. Revenue growth was broad-based, with records established in virtually all categories. Net revenues (revenues after interest expense) grew to $10.56 billion, exceeding 1992 and 1991 amounts by 23% and 46%, respectively.



Non-interest expenses were $8.13 billion, increasing 17% and 31% from those reported in 1992 and 1991, respectively. Excluding the non-recurring 1993 first quarter lease charge of $103.0 million, non-interest expenses were up only 15% from 1992. Incentive and production-related compensation, communications costs, brokerage, clearing and exchange fees, and certain advertising and market development expenses all rose due to increased business volume. Other non-interest expenses, which include base salaries, payroll taxes, benefits costs and all remaining expense categories, increased 12% over 1992 and 23% above 1991 levels. Many of these expense categories, including advertising and market development and professional fees, contain discretionary components that can be reduced if business conditions change.

The Corporation capitalized on strong markets during the past three years. At the same time, emphasis on managing and controlling costs has continued to positively influence the bottom line. After-tax profit margins have steadily improved, rising to 13.2% (12.9% after the cumulative effect of accounting change) in 1993 from 11.1% (10.4% after the cumulative effect of accounting changes) in 1992, and 9.6% in 1991. The Corporation's return on average common stockholders' equity climbed to 27.3% in 1993, compared with 22.0% and 20.8% in 1992 and 1991, respectively.

In 1993, the Corporation reclassified certain income statement and balance sheet categories. Prior years' financial statements have been reclassified to conform to the presentation for the current period. (See Basis of Presentation in the Notes to Consolidated Financial Statements.)

The following discussion highlights in more detail changes in the major categories of revenues and expenses and other pertinent information on the Corporation's business activities.

Commission revenues advanced 19% in 1993 to $2.89 billion, due primarily to the continued growth of listed securities transactions and increased sales of mutual funds, regulated commodities contracts, and over-the-counter securities.

Commissions from listed securities increased 23% from 1992 to $1.41 billion as investors remained active in the equity markets. Market participation increased as investors continued to reposition their investment portfolios to enhance potential yield and growth opportunities. In 1993, the average daily trading volume on the New York Stock Exchange ("NYSE") increased 29% from 1992 to 260 million shares. The Dow Jones Industrial Average ("DJIA") average daily closing index, a measure of share prices, was 3,522, 7% above the 1992 average daily close. The Corporation's 1993 market share of publicly listed NYSE equity volume was approximately 10%, down slightly from 1992.

Mutual fund commissions rose 27% in 1993 to $846 million. Individual investors continued shifting maturing certificates of deposits and other low-yielding cash investments into domestic and global equity mutual funds and, to a lesser extent, fixed-income mutual funds. As a result, revenues from sales of front-end funds increased 30% over 1992 to $500 million. Moreover, strong current and prior-period sales led to a 31% increase to $297 million in distribution fees from deferred-charge funds. Redemption fees declined 10% to $49 million from the prior year.

Other commissions consisted primarily of money market, commodities, over-the-counter, and option products. In 1993, other commissions increased 5% to $639 million on the strength of higher commodity and over-the-counter transactions, partially offset by lower commission revenues from retail money market instruments.

In 1992, commission revenues advanced 12% from 1991, primarily as a result of the growth in listed securities transactions and sales of mutual funds. Listed securities commissions benefited from higher NYSE volume and increased market participation by individual investors. Mutual fund commissions advanced due to investors shifting assets from low interest-yielding short-term investments to potentially higher-yielding equity and fixed-income mutual funds. Other commission revenues increased 4% from 1991 levels.

At year-end 1993, the Corporation had approximately 13,100 Private Client Financial Consultants and Institutional Account Executives worldwide, compared with 12,700 at year-end 1992 and 12,100 at year-end 1991.

INTEREST AND DIVIDENDS

Significant components of interest and dividend revenues and interest expense for 1993, 1992, and 1991 follow:

(In Millions)	1993	1992	1991
Interest and dividend revenues:			
Trading inventories	$2,437	$2,007	$1,697
Resale agreements	1,124	1,066	1,302
Securities borrowed	1,521	823	616
Margin lending	779	598	569
Other	1,238	1,312	1,577
Subtotal	7,099	5,806	5,761
Interest expense:			
Borrowings	2,515	1,697	1,653
Repurchase agreements	1,383	1,225	1,489
Commitments for securities sold but not yet purchased	1,252	931	727
Other	880	982	1,237
Subtotal	6,030	4,835	5,106
Net interest and dividend profit	$1,069	$ 971	$ 655

Interest and dividend revenues increased 22% in 1993 to $7.10 billion, due to increases in collateralized lending activities, and higher levels of other interest-earning assets, principally inventories. Interest expense, which includes dividend expense, increased 25% to $6.03 billion as a result of increases in collateralized borrowing activities and higher levels of interest-bearing liabilities. In 1993, net interest and dividend profit advanced 10% from 1992 to a record $1.07 billion. Contributing to these strong results were the expansion of collateralized borrowing and lending activities, growth in trading inventories and on-balance sheet hedges, the increased availability of interest-free funds due to a larger equity base, and reduced funding costs due to lower interest rates and improved credit ratings.

In 1992, net interest and dividend profit advanced 48% over 1991 to $971 million primarily as a result of higher balance sheet levels, increases in equity capital and improved rate spreads due to lower funding costs.

PRINCIPAL TRANSACTIONS

Principal transactions revenues reached record levels in 1993, up 35% to $2.92 billion from the prior record set in 1992, primarily due to increases in customer order flow, tighter credit spreads, and favorable trading results. Fixed-income and foreign exchange trading revenues, in the aggregate, increased 33% to $2.18 billion on higher revenues from swaps and derivatives, corporate bonds and preferred stocks, and non-U.S. governments and agencies. These advances were somewhat offset by decreases in mortgage-backed products and foreign exchange trading.

Swaps and derivatives revenues continued to grow in 1993 and represented 26% of total principal transactions revenues (see discussion on Derivative Financial Instruments on page 41). Swaps and derivatives revenues have benefited from increased volume and market growth, as well as an expanding product base. The advance in swaps and derivatives was due to higher revenues from both dollar and non-dollar swap trading activities, as well as increased revenues from equity derivatives. Dollar swap trading revenues increased as issuers and investors looked to hedge interest rate risk, while non-dollar swap trading revenues benefited from investor and issuer demand, and favorable trading results. In addition, equity derivative revenues rose due to investor demand for equity-linked products.

Corporate bond and preferred stock revenues, in the aggregate, increased 100% to $376 million due to increased trading volume and tighter credit spreads. Non-U.S. government and agency revenues rose 185% to $175 million, benefiting from increased volume due to lower interest rates on foreign government bonds, and higher revenues from over-the-counter options. Mortgage-backed principal transactions revenues continued to be negatively affected, in part, by prepayments, refinancings, and the accounting effect of dollar roll transactions. (See discussion below on relationship between principal transactions and net interest.) In 1993, mortgage-backed principal transactions revenues were essentially break-even; net revenues including related hedges and net interest, however, were positive, although 22% below 1992 record levels. Municipal and money market instruments principal transactions revenues rose 20% and 95%, respectively, on the strength of increased client demand for tax-exempt securities and improved trading in fixed- and floating-rate medium-term notes. Foreign exchange trading revenues declined 16% from 1992 record levels to $128 million as a result of lower volatility in European currencies.

Equity revenues rose 39% to $744 million, principally on the strength of a 78% increase in revenues from international equities and a 24% improvement in revenues from U.S. over-the-counter markets. Over-the-counter equities trading revenue benefited from increased volume, as 1993 NASDAQ average daily trading volume rose 37%.

Trading, hedging, and financing activities affect the recognition of both principal transactions revenues and net interest and dividend profit. In assessing the profitability of financial instruments, the Corporation views net interest and principal transactions components in the aggregate. For financial reporting purposes, however, realized and unrealized gains and losses on trading positions, including hedges, are recorded in principal transactions revenues. The net interest carry (e.g., the spread representing interest earned versus financing costs on financial instruments) for trading positions, including hedges, is recorded as either principal transactions revenues or net interest profit, depending on the nature of the specific position. Interest income or expense on a U.S. Treasury security, for example, is reflected in net interest, while the gain or loss is included in principal transactions. Financial instruments requiring forward settlement, such as mortgage-backed "to be announced" mortgage pools, have interest components built into their market value; any change in the market value, however, is recorded in principal transactions revenues. Changes in the composition of trading inventories and hedge positions can cause the recognition of revenues within these categories to fluctuate. Consequently, net interest and principal transactions revenue components should be evaluated collectively.

In 1992, principal transactions revenues increased 14% from 1991 to $2.17 billion. Fixed-income and foreign exchange trading revenues, in the aggregate, advanced 16% as a result of substantially higher revenues from swaps and derivatives, which represented 22% of total principal transactions revenues, and increased revenues from foreign exchange. Foreign exchange revenues rose due to increased volume, as investors were active in the currency markets due to European monetary volatility. Equities revenues rose 8% from 1991 due primarily to increased activity in the over-the-counter and international equity markets, principally related to client order flow.

The table below provides information on aggregate trading profits, including net interest. Principal transactions revenues amounts are derived from external reporting categories, while interest revenue and expense components are based on management's assessment of the cost to finance trading positions, which considers the underlying liquidity of these positions.

(In Millions)	Principal Transactions Revenue	Net Interest Revenue (Expense)	Net Trading Revenue
1993			
Fixed-income and foreign exchange	$1,415	$412	$1,827
Swaps and derivatives[1]	761	(8)	753
Equities	744	(9)	735
Total	$2,920	$395	$3,315
1992			
Fixed-income and foreign exchange	$1,146	$368	$1,514
Swaps and derivatives[1]	486	63	549
Equities	534	(12)	522
Total	$2,166	$419	$2,585
1991			
Fixed-income and foreign exchange	$1,119	$221	$1,340
Swaps and derivatives[1]	291	2	293
Equities	496	(36)	460
Total	$1,906	$187	$2,093

[1] *Swaps and derivatives revenues include transactions recorded by the Corporation's primary derivative subsidiaries.*

Investment Banking

Investment banking revenues climbed 23% in 1993 to a record $1.83 billion, surpassing the prior record established in 1992. Underwriting revenues advanced 26% to $1.65 billion in 1993 as the aggregate volume of global debt and equity issuances industrywide exceeded the prior year's record by 36%. Market conditions in 1993 were similar in many respects to those of 1992, with low interest rates and higher share prices the key factors behind the surge in volume. Companies continued to refinance their balance sheets, retiring higher interest-bearing debt with lower rate issuances, or raising capital through equity offerings. Investor demand remained strong for equities and high-yield bonds which offered the potential for increased returns, compared with other investment alternatives.

In 1993, emerging market financings in Latin America and China produced some of the significant deals of the year and, in the current environment, should continue to be a growth sector within underwriting revenues. Demand for global issues was strong, as investors continued to diversify their worldwide holdings. Favorable markets also benefited convertible and corporate bond offerings, and private placement issuances.

The Corporation retained its position as top underwriter of domestic securities for the sixth consecutive year and leader of global offerings for the fifth consecutive year. In 1993, the Corporation brought to market $193 billion of securities worldwide. The Corporation's domestic and global share of underwriting volume was virtually unchanged in 1993; 16.3% and 12.8%, respectively, versus 16.5% and 13.0% in the year-earlier period.

Strategic services revenues, which include fees for debt restructuring, merger and acquisition activity and other advisory services, grew 5% to $184 million in 1993. Merger and acquisition activity and advisory fee services increased in the second half of 1993, benefiting from services provided to industrial corporations.

In 1992, investment banking revenues increased 26% from 1991 to $1.48 billion, due primarily to higher revenues from the underwriting of equities, preferred stock, corporate debt, and high-yield and municipal bonds. Revenues from strategic services rose 13% in 1992 but remained at historically low levels.

AGEMENT AND PORTFOLIO SERVICE FEES

Revenues from asset management and portfolio service fees rose 24% in 1993 to a record $1.56 billion, principally as a result of increased fees earned from asset management activities, the Merrill Lynch Consults® ("ML Consults") portfolio management service, and other fee-based services.

This revenue line now includes revenues from the Corporation's fee-based services, some of which were previously recorded in other revenues. Included in asset management and portfolio service fees are revenues from managing assets, custodial services, ML Consults, transfer agency, mortgage servicing, variable life and annuity insurance contracts, and various trust-related activities.

Asset management fees, of which 87% are attributable to Merrill Lynch-sponsored mutual funds, increased to $706 million, up 21% from 1992, due primarily to growth in stock and bond funds.

The Corporation's strategy of advising clients to (i) begin saving early and often to meet short- and long-term financial goals, (ii) assess and continuously re-evaluate retirement needs, and (iii) allocate assets by type (i.e., stocks, bonds, mutual funds) and by region (i.e., domestic and international) to achieve greater returns and diversification, has contributed to record levels of assets under management.

Assets under management by Merrill Lynch Asset Management ("MLAM"), increased $22 billion or 16%, reaching $160 billion at year-end 1993. As indicated earlier, the increase was mostly attributable to stock and bond funds, which grew by $21 billion to $72 billion in 1993. Money market funds represented 41% of MLAM assets under management and totaled $66 billion in 1993, virtually unchanged from 1992 levels. Included in assets under management were $6 billion of investments of insurance subsidiaries. Investments of insurance subsidiaries managed by MLAM declined 22% from 1992 levels, due to the Corporation's previously announced decision to curtail activity in fixed-rate life insurance and annuities and, instead, focus on separate account variable insurance products.

Revenues from ML Consults advanced 66% from 1992 to $294 million as a result of more accounts, increased assets, and higher asset values. At December 31, 1993, the total number of accounts was 87,000, an increase of 36% over 1992. Asset levels were up 38% to $16.9 billion at year-end 1993.

Other fee-based revenues were up 13% from 1992 to $558 million due, in part, to increased revenues from mortgage servicing, insurance, and custodial fees for retirement accounts.

In 1992, asset management and portfolio service fee revenues advanced 25% from 1991 to $1.25 billion due principally to the substantial growth of the ML Consults product, higher levels of assets under management and increases in CMA® revenues. In 1992, the number of ML Consults accounts increased nearly 160% from 1991 to 64,000, while related asset levels increased 135% to $12.2 billion. Assets under fee-based management by MLAM grew by $15 billion to $138 billion at year-end 1992, a 12% increase from year-end 1991. The advance in CMA revenues was partly attributable to a 25% increase in the annual fee initiated in September 1991 as well as growth in the number of client accounts.

Other Revenues

Other revenues were up 1% in 1993 to $285 million. Other revenues include investment gains and losses, mortgage application and securities processing fees, and proxy activities.

Contributing to the advance in other revenues were higher fees generated from growth in home equity loan activity, partially offset by higher net investment losses related primarily to provisions for merchant banking activities. Net investment losses totaled $133 million in 1993, compared with $120 million in 1992. Merchant banking loss provisions reflect adjustments to certain positions where the carrying value was in excess of the estimated net realizable value. Merchant banking positions are carried at lower of cost or estimated net realizable value. In certain instances, sales of merchant banking positions are subject to restrictions, limiting the Corporation's ability to dispose of these instruments until required holding periods expire. Management believes that such assets as currently valued are fairly stated. Nevertheless, as economic conditions change in 1994 and beyond, additional loss provisions may be required. (See discussion of Non-Investment Grade Holdings and Highly Leveraged Transactions.)

In 1992, other revenues declined 17% from 1991 to $281 million due primarily to net investment losses related to merchant banking activities. Net investment losses increased by 154% from the $47 million reported in 1991, as provisions related to certain merchant banking positions increased.

Non-Interest Expenses

Non-interest expenses were up 17% over the prior year to $8.13 billion; excluding the 1993 first quarter non-recurring lease charge of $103.0 million, non-interest expenses increased 15%. The largest expense category, compensation and benefits, increased 20% from 1992 to $5.26 billion. The increase in compensation and benefits expense was due to heightened business activity which increased production-related compensation, a rise in incentive-related compensation linked to the Corporation's improved profitability and return on average common equity, and a 5% increase in the number of full-time employees. Benefits expense increased from 1992 due primarily to severance accruals for selected reductions in personnel, higher payroll taxes related to increased incentive and production-related compensation, and increased health care costs.

In 1993, the Corporation selectively increased the number of full-time personnel from 40,100 at the end of 1992, to 41,900 at year-end 1993. This increase was primarily among revenue producers and sales assistants. Nevertheless, compensation and benefits as a percentage of net revenues declined to 49.8% in 1993 from 50.9% in 1992. This ratio has dropped in each of the last three years. The Corporation's ratio of support employees to producers and sales assistants, decreased from 1.38 to 1 in 1992 to 1.34 to 1 at year-end 1993. Excluding sales assistants, the ratio was 1.43 to 1 in 1993 versus 1.44 to 1 in 1992.

Facilities-related costs, including occupancy, communications and equipment rental, and depreciation and amortization, increased 13% from a year ago (3% excluding the non-recurring lease charge). Occupancy rose 20% in 1993 as a result of the $103.0 million pretax non-recurring charge recorded in the 1993 first quarter related to the Corporation's decision not to occupy certain space at its Headquarters facility. An agreement to sublet this space was executed in the 1993 fourth quarter. Excluding this charge, occupancy expense declined 2%. Communications and equipment rental expenses were up 5% as a result of increased volume for market data and news services, and telephone charges. Depreciation and amortization expense rose 10%, primarily as a result of accelerated depreciation for the replacement of trading and client order processing equipment at various domestic and international locations. This equipment is being replaced for technology upgrades.

Advertising and market development expenses rose 25% from 1992, reflecting higher sales promotion and recognition program costs for Financial Consultants tied to increased business activity. Travel costs were up as the increase in business volume required additional domestic and international travel. Certain discretionary national and local advertising campaigns also were expanded.

Professional fees increased 13% from a year ago, due primarily to the increased use of system and management consultants for the technology upgrades noted earlier. Employment agency fees were also up due to the increase in the number of producer personnel hired during 1993, while other professional fees increased as a result of strategic market studies.

Brokerage, clearing and exchange fees were up 1% from the prior-period as a result of increased trading volume, partially offset by reduced rates on renegotiated service agreements. Other expenses increased 5% principally as a result of additions to loss provisions related to litigation and claims (see Litigation in the Notes to Consolidated Financial Statements), while other loss provisions related to specific business activities declined significantly from 1992 levels.

Non-interest expenses in 1992 increased 12% from 1991 to $6.96 billion. Favorable markets, increased business volume, and profitability contributed to higher compensation and benefits expense. Advertising and market development expenses increased due to higher sales promotions and Financial Consultant recognition costs tied to heightened business activity, and increases in discretionary national advertising. Brokerage, clearing and exchange fees also increased due to higher levels of business. Professional fees increased over 1991 levels due to increased systems and strategic development projects. Other expenses increased as a result of additions to loss provisions related to various business activities.

Income Taxes

The Corporation's income tax provision was $1.03 billion and represented a 42.5% effective tax rate. In 1992 and 1991, income tax provisions were $669 million and $321 million, respectively, representing effective tax rates of 41.3% in 1992 and 31.6% in 1991.

In 1993, the Omnibus Budget Reconciliation Act (the "Revenue Act") was enacted. Under the Revenue Act, the Corporation's statutory income tax rate was increased to 35.0% retroactive to January 1, 1993. The increase in the Corporation's 1993 effective tax rate, compared with 1992, related primarily to the increase in the Federal statutory rate from 34.0% in 1992 to 35.0% in 1993.

In 1992, the Corporation adopted SFAS No. 109, *Accounting for Income Taxes*. Previously, the Corporation accounted for income taxes in accordance with SFAS No. 96. As a result of adopting this accounting pronouncement, the Corporation recorded a $17.8 million cumulative effect benefit in 1992. The cumulative effect adjustment recognizes the utilization of previously unrecorded state and local tax benefits. The increase in the effective tax rate, compared with 1991, represented reduced availability of alternative minimum tax credits and net operating loss carryforwards. All available alternative minimum tax credits and net operating loss tax benefit carryforwards from prior years were utilized by the end of 1992.

Income tax expense in 1991 reflected the utilization of previously unrecognized tax benefits.

Stockholders' Equity

Stockholders' equity at December 31, 1993 increased 20% to $5.49 billion from the $4.57 billion reported at year-end 1992. The increase in 1993 was principally the result of net earnings, less common and preferred dividends declared by the Corporation, partially offset by an increase in treasury stock related primarily to the Corporation's share repurchase program. On December 31, 1993, the Corporation adopted SFAS No. 115, *Accounting for Investments in Certain Debt and Equity Securities*, which increased stockholders' equity, net of applicable income taxes, by $21 million (see Accounting Changes in the Notes to Consolidated Financial Statements).

In the 1993 fourth quarter, the Corporation's Board of Directors declared a two-for-one common stock split effected in the form of a 100% stock dividend. In the second quarter of 1993, stockholders of the Corporation approved an increase in the authorized number of common stock from 200 million to 500 million shares. In addition, 1,637,314 shares of common stock were issued related to certain employee benefit plans.

The Corporation granted a total of approximately 1.8 million shares of common stock during 1993 to certain employees under the Long-Term Incentive Compensation Plan and Equity Capital Accumulation Plan.

In 1993, the Corporation repurchased approximately 0.1 million shares of common stock at an average cost of $33.65 per share to meet share requirements under the Employee Stock Purchase Plan and an additional 16.2 million shares at an average price of $42.59 per share for other employee benefit plans, and general corporate purposes.

At December 31, 1993, total common shares outstanding, excluding the unallocated Employee Stock Ownership Plan ("ESOP") reversion common shares, amounted to 204.0 million, down 2% from the 207.2 million shares outstanding at December 25, 1992. Including unallocated ESOP shares, total outstanding common shares amounted to 212.9 million at year-end 1993. Total outstanding common shares, including unallocated ESOP shares, and commitments for shares related to employee benefit plans approximated 319.2 million at December 31, 1993.

Liquidity and Liability Management

The primary objective of the Corporation's funding policies is to assure liquidity at all times. To strengthen liquidity the Corporation maintains a strong capital base, issues term debt, obtains committed backup credit facilities, concentrates debt issuance through Merrill Lynch & Co., Inc., (the "Parent"), and pursues expansion and diversification of investors, funding instruments, and creditors.

There are three key elements to the Corporation's liquidity strategy. The first is to maintain alternative funding sources such that all debt obligations maturing within one year, including commercial paper and the current portion of term debt, can be funded when due without issuing new unsecured debt or liquidating any business assets. The most significant alternative funding sources are the proceeds from executing repurchase agreements ("repos") and obtaining secured bank loans,

both employing unencumbered investment-grade marketable securities. The calculation of proceeds available from repos and secured bank loans takes into account both a conservative estimate of excess collateral required by secured lenders, and regulatory restrictions on upstreaming cash from subsidiaries to the Parent. The ability to execute this secured funding is demonstrated by the Corporation's routine use of repo markets to finance inventory and by periodic tests of secured borrowing procedures with banks. Other alternative funding sources could include liquidating cash equivalents, securitizing additional home equity and Prime First® loans, and drawing upon committed unsecured credit facilities.

As an additional measure, the Corporation regularly reviews its assets and liabilities to ascertain its ability to conduct core businesses without reliance on issuing new unsecured debt or drawing upon committed credit facilities for terms beyond one year. The composition of the Corporation's asset mix provides a great degree of flexibility in managing liquidity. The Corporation monitors the liquidity of assets, the quality of committed credit facilities and the overall level of term debt in assessing financial strength and capital adequacy at any point in time.

The second element of the Corporation's liquidity strategy is to concentrate all general purpose borrowing at the Parent level, except where tax regulations or time differences make this impractical. The benefits of this guideline are: a) the lower financing costs that result from the reduced risks of a diversified asset and business base; b) the simplicity, control and wider name recognition for banks, creditors and rating agencies; and c) the flexibility to meet variable funding requirements within subsidiaries.

The third element is to expand and diversify funding sources and to maintain strict concentration standards for short-term lenders. The Corporation's short- and long-term funding programs benefit from the large, diversified customer base and financial creativity of the Corporation's capital market and private client operations. Commercial paper remains the Corporation's major source of short-term general purpose funding. Commercial paper outstanding totaled $14.9 billion at December 31, 1993 and $9.6 billion at December 25, 1992, which represented 10% and 9% of total assets at year-end 1993 and 1992, respectively. Through its own sales force, the Corporation markets its commercial paper to thousands of investors and is able to maintain tight concentration standards that include limits for any single investor. Total term debt issuance was a record in 1993 as the Corporation was active in both domestic debt markets and Euro markets through public and private placements. Foreign currencies and different interest rate indices were hedged to match the economic characteristics of the Corporation's assets. Outstanding term debt grew to $13.5 billion from $10.9 billion in 1992. During 1993, the Corporation issued $7.3 billion of long-term debt. During the same period, maturities and repurchases were $4.6 billion. In addition, approximately $580 million of the Corporation's securities held by subsidiaries were sold and $673 million were purchased. At December 31, 1993, $7.8 billion of term debt had maturity dates beyond one year, and the average maturity on all outstanding term debt was 2.9 years, compared with 2.8 years at year-end 1992.

Capital Resources and Capital Adequacy

The Corporation remains one of the most highly capitalized institutions in the U.S. securities industry with an equity base of $5.49 billion at December 31, 1993, including $5.29 billion in common equity, supplemented by $0.2 billion in preferred stock. The Corporation's overall capital needs are continually reviewed to ensure that its capital base can support the estimated needs of its businesses as well as the regulatory and legal capital requirements of subsidiaries. Based upon these analyses, management believes the Corporation's equity base is adequate.

Assets and Liabilities

The Corporation manages its balance sheet and risk limits according to market conditions and business needs subject to profitability and control of risk. Asset and liability levels are primarily determined by order flow and fluctuate daily, sometimes significantly, depending upon volume and demand. The liquidity and maturity characteristics of assets and liabilities are monitored continuously. The Corporation uses average daily balances to monitor and manage the growth of its balance sheet. Average daily balances were derived from the Corporation's management information system which summarizes balances on a settlement date basis. Financial statement balances as required under generally accepted accounting principles are recorded on a trade date basis. The discussion that follows compares the changes in settlement date average daily balances, not year-end balances. The reasons underlying changes in average balances, however, are similar to changes in year-end balances.

The increase in average balance sheet levels in 1993 was attributable to many factors, including investor demand, continued low interest rates, and hedge transactions. In 1993, average assets were $143 billion, up 36% from $105 billion in 1992. Average liabilities in 1993 rose 37% to $139 billion from $102 billion in 1992. The major components in the growth of average assets and liabilities are summarized as follows:

	Increase in Average Assets	Percent Increase
(In Millions)		
Trading inventories	$14,230	45%
Resale agreements	12,630	53
Securities borrowed	7,200	44
Customer receivables	3,362	38

	Increase in Average Liabilities	Percent Increase
Repurchase agreements	$15,754	47%
Commercial paper and other short-term borrowings	8,385	50
Commitments for securities sold but not yet purchased	7,567	52
Long-term borrowings	2,894	29

The Corporation's trading inventories increased due to continued demand for non-U.S. Government and agency securities, equities, and corporate debt. In 1993, the Corporation entered into certain trading strategies which required higher levels of trading inventories and related hedges.

As recorded on the Consolidated Balance Sheets at December 31, 1993, trading inventories were $51.5 billion, up 63% from $31.7 billion at year-end 1992 primarily related to increased client order flow. Included in trading inventories were on-balance sheet hedges totaling $13.3 billion at December 31, 1993. Commitments for securities sold but not yet purchased were $21.7 billion at December 31, 1993, a 49% increase from year-end 1992. This advance was primarily due to increased hedge activity. At December 31, 1993, these hedges totaled $14.7 billion. The Corporation uses hedges principally to reduce risk in connection with its trading activities. Trading inventories were financed primarily with repurchase agreements.

Funding sources continued to expand in 1993 and helped finance other portions of the Corporation's businesses. The Corporation diversified its funding base, increasing the number of commercial paper holders and used medium-term notes (included in long-term borrowings) to provide greater financing flexibility.

In managing its balance sheet, the Corporation uses hedges, in part, to match-fund its interest-earning assets with interest-bearing liabilities. Match-funding, for example, is common in the resale/repo markets where securities received on resales are repoed to third parties, with an interest spread earned on these transactions. The Corporation is an active issuer of long-term debt, with the mix of long-term funding adjusted to match the lives of longer-term, less liquid assets and to strengthen overall liquidity.

Customer receivables advanced as demand remained strong for equities, foreign securities, particularly emerging market issuances, and corporate and high-yield debt. In 1993, continued emphasis was also placed on collateralized lending activities to facilitate client demand. Securities borrowed increased primarily to facilitate deliveries to customers.

Non-Investment Grade Holdings and Highly Leveraged Transactions

In the normal course of business, the Corporation underwrites, trades and holds non-investment grade securities in connection with its market-making, investment banking and derivative structuring activities. As a result of improved liquidity and credit ratings of issuers in this market, the Corporation has increased its non-investment grade trading inventories to satisfy client demand for higher-yielding investments. The growth in non-investment grade trading inventories is also attributable to the volume of domestic high-yield underwritings, which reached record levels industrywide. High-yield underwritings have increased as a result of issuers looking to refinance higher interest-bearing debt in an effort to improve their cash flows and balance sheets.

For purposes of this discussion, non-investment grade securities have been defined as debt and preferred equity securities rated by Standard and Poor's as BB+ or lower and by Moody's as Ba1 or lower (or equivalent ratings for other instruments and non-U.S. securities), certain sovereign debt in emerging markets, amounts due under various derivative contracts from non-investment grade counterparties as well as non-rated securities which, in the opinion of management, are non-investment grade. At December 31, 1993, long and short non-investment grade inventories accounted for 4.6% of aggregate consolidated trading inventories, compared with 4.2% at year-end 1992 and 3.3% at year-end 1991. Non-investment grade trading inventories are carried at fair value.

In conjunction with its investment and merchant banking activities, the Corporation provides financing and advisory services to, and invests in, companies entering into leveraged transactions. Examples of leveraged transactions may include leveraged buyouts, recapitalizations, and mergers and acquisitions. Merchant banking financings are extended on a select and limited basis. The Corporation provides extensions of credit to leveraged companies in the form of senior and subordinated debt, as well as bridge financing. Loans to highly leveraged companies are carried at unpaid principal balances less a reserve for estimated losses. The allowance for loan losses is estimated based on a review of each loan, and considerations of economic, market and credit conditions. At December 31, 1993, there were no bridge loans outstanding.

The Corporation holds direct equity investments in leveraged companies, interests in partnerships that invest in leveraged transactions, and non-investment grade securities. Equity investments in privately held companies for which sale is restricted by government or contractual requirements are carried at the lower of cost or net realizable value. The Corporation has a co-investment arrangement to enter into direct equity investments and also has committed to participate in limited partnerships that invest in leveraged transactions.

The Corporation's involvement in highly leveraged transactions and non-investment grade securities is subject to risks related to the creditworthiness of the issuers and the liquidity of the market for such securities, in addition to the usual risks associated with extending credit, investing, underwriting, and trading investment grade instruments. The Corporation recognizes such risks and, when possible, develops strategies to mitigate its exposures.

The specific components and overall level of highly leveraged and non-investment grade positions may vary significantly from period to period as a result of inventory turnover, investment sales and asset redeployment. The Corporation continuously monitors credit risk by individual issuer and industry concentration. In addition, valuation policies provide for recognition of market liquidity, as well as the trading pattern of specific securities. In certain instances, the Corporation will hedge the exposure associated with owning a high-yield or non-investment grade position by selling short the related equity security, and in other instances, the Corporation uses non-investment grade inventories to reduce exposure related to structured derivative transactions.

During the fourth quarter of 1993, the Corporation increased certain non-investment grade trading inventories (non-U.S. Governments and agencies) to accommodate demand for client order flow and to hedge the exposure arising from structured derivative trans-

actions. For structured derivative transactions, collateral, consisting principally of U.S. Government securities, may be obtained to reduce credit risk.

The Corporation's insurance subsidiaries hold non-investment grade securities. At December 31, 1993, non-investment grade insurance investments as a percentage of total insurance investments were 5.8%, compared with 4.5% at year-end 1992 and 5.6% at year-end 1991.

At December 31, 1993, non-investment grade securities of insurance subsidiaries classified as trading or available-for-sale are carried at fair value. Prior to year-end 1993, investments of insurance subsidiaries were carried at amortized cost.

A summary of the Corporation's non-investment grade holdings and highly leveraged transactions follows:

(In Millions)	1993	1992	1991
Non-investment grade trading inventories	$3,129	$1,723	$ 978
Non-investment grade commitments for securities sold but not yet purchased	214	209	150
Non-investment grade investments of insurance subsidiaries	458	409	544
Loans (net of allowance for loan losses) *(a)*	435	822	1,081
Bridge loans	–	–	79
Equity investments *(b)*	276	360	350
Partnership interests *(c)*	92	120	97
Additional commitments to invest in partnerships *(d)*	$ 19	$ 27	$ 18
Additional co-investment commitments	49	89	185
Unutilized revolving lines of credit and other lending commitments	49	75	67

(a) Represented outstanding loans to 42, 50, and 55 medium-sized companies at year-end 1993, 1992, and 1991, respectively.

(b) Invested in 82, 103, and 99 enterprises at year-end 1993, 1992, and 1991, respectively.

(c) Subsequent to year-end 1993, the Corporation increased its partnership interests by $15 million.

(d) Subsequent to year-end 1993, the Corporation had additional partnership commitments of up to $50 million.

At December 31, 1993, the largest non-investment grade concentration consisted of various issues of a Latin American sovereign totaling $341 million, of which $146 million represented on-balance sheet hedges. No one industry sector accounted for more than 15% of total non-investment grade positions. Included in the table above are debt and equity securities of issuers who were in various stages of bankruptcy proceedings or in default. At December 31, 1993, the carrying value of these securities totaled $393 million, of which 59% resulted from the Corporation's market-making activities.

Cash Flows

Total cash and cash equivalents increased $532 million in 1993 to $1.78 billion. At year-end 1992, total cash and cash equivalents increased $178 million to $1.25 billion, while at year-end 1991, total cash and cash equivalents decreased $713 million to $1.07 billion.

In 1993, cash provided by financing and investing activities was used for operating activities, while in 1992 and 1991, cash provided by financing activities was used for operating and investing activities.

Cash used for operating activities totaled $17.1 billion in 1993 primarily reflecting increases in operating assets and liabilities consistent with the level of business activity. Increases in trading inventory levels of $19.8 billion, securities borrowed of $5.4 billion, other operating assets of $3.7 billion, and customer receivables of $3.5 billion were partially offset by increases in commitments for securities sold but not yet purchased of $7.1 billion, other operating liabilities of $4.4 billion and customer payables of $3.7 billion. Non-cash charges aggregating $1.5 billion were included in 1993 net earnings.

In 1992, cash used for operating activities was $5.2 billion. Increases in trading inventory levels of $6.8 billion, customer receivables of $2.4 billion, securities borrowed of $1.7 billion and reductions in insurance liabilities of $1.2 billion were partially offset by increases in commitments for securities sold but not yet purchased of $5.0 billion. In 1992, non-cash charges included in net earnings were $1.8 billion. Cash used for operating activities in 1991 was $8.6 billion. Volume-related growth in trading inventories of $7.6 billion, securities borrowed of $4.1 billion and other assets of $2.9 billion were partially offset by increases in commitments for securities sold but not yet purchased and customer liabilities totaling $3.4 billion and $0.8 billion, respectively. In 1991, non-cash charges included in net earnings were $1.7 billion.

In 1993, investing activities provided the Corporation with cash of $387 million, primarily representing net proceeds from maturities and net sales of insurance investments totaling $1.5 billion offset by net purchases of marketable investment securities, property, leasehold improvements and equipment, and other assets of $1.2 billion. Cash used for investing in 1992 and 1991 principally represented net purchases of marketable investment securities and investments of the Corporation's insurance subsidiaries totaling $229 million in 1992 and $1.2 billion in 1991.

In 1993, $17.3 billion was provided by financing activities reflecting increases in repurchase agreements, net of resale agreements, and commercial paper and other short-term borrowings of $10.9 billion and $4.4 billion, respectively. Net long-term borrowing activities generated $2.6 billion. (See Long-Term Borrowings Note to Consolidated Financial Statements.) These funds were used to finance the growth in the Corporation's balance sheet.

Financing activities provided the Corporation with $5.4 billion of cash in 1992. Proceeds from net short-term funding activities were $2.8 billion, while $2.9 billion was generated from net long-term borrowing activities. In 1991, financing activities provided the Corporation with $9.4 billion from various increases in short- and long-term borrowing activities.

New Accounting Developments

Balance Sheet Netting of Unrealized Gains and Los for Off-Balance-Sheet Transactions

Consistent with industry practice, the Corporation presents unrealized gains and losses for off-balance-sheet financial instruments, such as swaps and foreign exchange contracts, net on the balance sheet. Beginning in 1994, Financial Accounting Standards Board ("FASB") Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts*, requires the Corporation to report separately on the balance sheet unrealized gains as assets, and unrealized losses as liabilities. Netting will be permitted only when a legal right of setoff exists with the same counterparty under a master netting arrangement. If this requirement had been in effect at December 31, 1993, assets and liabilities would have increased approximately $6.7 billion.

Accounting by Creditors for Impairment of a Loan

In May 1993, the FASB issued SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*. This pronouncement, effective in 1995, establishes accounting standards for creditors of impaired loans. A loan is considered impaired when it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. The statement requires measurement of impaired loans based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of collateral held. This statement does not apply to large groups of consumer-type loans collectively evaluated for impairment, loans carried at fair value or lower of cost or fair value, leases or debt securities. This statement is not expected to have a material effect on the consolidated financial statements of the Corporation.

Derivative Financial Instruments

Origination and trading of derivative financial instruments have grown steadily over the past decade. Derivative financial instruments, which include swaps, options, forwards and futures, are contracts based on an underlying asset (e.g., corporate bond), index (e.g., S&P 500) or reference rate (e.g., three-month LIBOR). Derivatives can be traded on an exchange or negotiated in the over-the-counter markets. Futures contracts, certain options and MITTS®, a bond linked to the appreciation of an equity index or value of a portfolio of specified securities, are examples of exchange listed derivatives. Swap contracts, including swap options, caps and floors, and forward contracts, are examples of over-the-counter derivatives.

Derivative transactions may have both on- and off-balance-sheet implications, depending upon the nature of the contract. Premiums on option contracts purchased, for example, are recorded in trading inventories, but futures contracts, excluding the unrealized gain or loss, are treated as off-balance sheet.

Derivatives provide many benefits to participants by facilitating risk transfer and enhancing liquidity in the marketplace. For issuers, derivatives provide cost effective funding alternatives, while for investors, derivatives provide alternative investment options with potentially higher return opportunities and the ability to hedge risk. Market participants include dealers such as banks, insurance companies, and other financial institutions; and end-users such as corporations, governments, pension funds, and government agencies. Financial institutions benefit from derivatives both as an end-user and as a dealer. As a dealer, the Corporation trades derivatives and provides clients with customized financing products. These activities help strengthen existing client relationships. Derivatives also assist the Corporation in asset and liability management and reduce overall borrowing costs.

Increased market participation and competition has helped to increase liquidity in conventional derivatives, such as interest rate swaps. Competition has also contributed to the development of more complex products structured for specific clients. Rapid growth and complexity have contributed to the perception, by some, that these products possess additional risk to users and to financial markets. The risks of these transactions, however, are not unlike those in other markets. Similar to other financial instruments, derivatives are subject to market, credit, and operational risks which need to be managed in a manner consistent with a company's overall risk management policies.

Certain market and credit risks for derivative and cash market instruments are similar. Credit considerations, for example, are similar for a corporate bond (a cash market instrument) and an interest rate swap. For market risk, both of these instruments are sensitive to movements in interest rates which affect their respective pricing. Nevertheless, the complexity of derivatives contributes to the mystique surrounding these products. This uncertainty has recently contributed to increased scrutiny from rating agencies, regulators and legislators.

In response to these concerns, the Group of Thirty, an organization which sponsors work on various complex financial issues, completed a study on the global derivatives business. The study made 24 recommendations that dealers and end-users should implement in managing their derivative activities, and is designed to educate and promote a greater understanding of the derivatives business. The recommendations cover policy and management, market risk, credit risk, documentation, systems and operations, accounting and disclosure, and legislation and regulation. The Corporation participated in the Group of Thirty study and fully supports its recommendations.

The Corporation conducts its derivatives activities through a number of wholly owned subsidiaries, entering into interest rate, currency and commodity swaps, including caps, collars, floors, and swap options, currency option contracts, forward rate agreements, and equity derivative transactions as part of its client-driven and proprietary business activities. In connection with these derivatives activities, such subsidiaries also purchase and sell interest-bearing securities, equity securities, and financial futures and forward contracts for hedging purposes. As an end-user, the Corporation directly (or through its subsidiaries) uses derivatives to hedge certain trading positions. The Corporation also hedges its fixed-rate debt issuances through floating-rate

swap agreements with Merrill Lynch Capital Services, Inc. ("MLCS"), the Corporation's principal swaps dealer. In turn, MLCS enters into other contracts with third parties as part of the Corporation's asset and liability management strategies. Merrill Lynch Derivative Products, Inc. is the Corporation's AAA rated (Moody's and Standard and Poor's) swap subsidiary which provides credit intermediation for interest rate and currency swaps, options, and similar transactions between highly rated counterparties and MLCS.

Management Review

Senior management and other management personnel play an important role in managing the Corporation's derivative activities by setting risk and credit limits, reviewing new products, and establishing accounting, credit, and risk policies. Similar to other financial products, presentations on derivatives are made periodically to senior management. These presentations address current business issues and industry developments and provide details of other specific issues that are important to the Corporation in managing its derivatives business.

Accounting, Valuation and Risk Management

The notional values of derivative contracts represent a measure of outstanding transactions, and are not the amounts recorded on the balance sheet. Derivatives used to hedge trading positions in a dealer capacity are marked-to-market. The mark-to-market unrealized gain or loss is recorded on the Consolidated Balance Sheets with the related income or loss reported in principal transactions revenues. Derivatives used to hedge the issuance of long-term debt by the Corporation are recorded on an accrual basis. Interest is accrued into income or expense over the life of the contract.

The Corporation's derivative transactions are generally marked-to-market on a daily basis by pricing models using mid-market valuations. These values are adjusted for credit, market and liquidity risks and include items such as ongoing service costs, administrative fees, and transaction hedging costs. The Corporation defers income recognition, in whole or in part, on certain long-term derivative contracts, significant trading positions, and new products if there are unhedged risks, unsold positions, or uncertainty related to the completion of a transaction or market liquidity. Sources of derivative revenues and their related components are regularly reviewed by product, with profitability measured net of related hedge activities.

The Corporation's independent Risk Management Group ("Risk Management") has developed pricing and risk management models to assess compliance with established limits. Risk Management uses a variety of techniques to measure market risk relative to limits across all broad market cycles. Stress-test simulations under changing market conditions can also be performed. These simulations take into account significant changes in price, interest and discount rates, as well as volatility and basis risk.

Operational risks for derivative instruments require ongoing review. These instruments reset periodically based on floating-interest rates, amortizing principals, or variations in other factors. The Corporation's operations personnel ensure that periodic payments/receipts on these instruments are based on the appropriate variables and that the mark-to-market valuations reflect the most current data.

Credit

The Corporation actively manages its credit risk for derivative activities. The Credit Division ("Corporate Credit") is responsible for establishing client limits, monitoring monthly credit exposures, and implementing collateral requirements. Corporate Credit assists the business units in developing and refining credit risk measurement models, analyzing potential credit exposures for complex transactions, and establishing credit enhancement provisions. Credit enhancements protect the Corporation against counterparty credit difficulties. Such provisions require counterparties to post additional collateral or terminate a contract early if counterparty credit is downgraded, and if certain key ratios or covenants are not met.

Whenever possible, the Corporation executes the International Swap Dealers' Association ("ISDA") master netting agreement with its counterparties to help reduce overall credit exposure. Master netting agreements provide, in certain instances, protection in bankruptcy and enable receivables and payables with the same counterparty to be presented net on the Consolidated Balance Sheets. This provides for a more meaningful balance sheet presentation. Obtaining executed master netting agreements, however, remains a problem for the industry. Often, several months will elapse before a master netting agreement is executed. The industry is actively trying to resolve this issue and determine whether such agreements provide bankruptcy protection across all jurisdictions.

The notional or contractual values of derivative transactions do not represent exposure to credit risk. Credit risk represents the amount of accounting loss that the Corporation would incur if a counterparty failed to perform its obligations under contractual terms and the collateral held was deemed worthless. The Corporation, however, generally requires collateral from its counterparties to mitigate credit risk, when appropriate. From an economic standpoint, credit risk is evaluated net of the related collateral. Credit exposures are analyzed to assess current and potential credit risk. Current credit exposure represents the replacement cost of those contracts in a gain position, while potential credit exposures are based on calculations of future replacement costs over the remaining life of the contract.

Overall, derivative products are part of the evolution of financial products and services. The financial markets will continue tailoring products to address the changing needs of issuers and investors. Although the form of derivative financial instruments may differ from traditional cash instruments, their risks in substance are similar.

RISK MANAGEMENT

The Corporation operates in dynamic businesses that are subject to many risks which are continually monitored and evaluated in accordance with its corporate

governance policies. The Corporation's management has developed procedures that require specific areas and units to assist in the identification, assessment and control of these risks. Senior management takes an active role in the oversight of the risk management process.

Risk management is a decentralized process with centralized oversight. Managing risk begins with each trading desk and involves constant communication, judgment and knowledge of specialized products and markets. The Corporation incurs risk associated with its market-making and underwriting activities. To mitigate risk, the Corporation uses risk management techniques such as hedging trading positions, establishing trading limits, monitoring concentrations in any product, evaluating counterparty credit quality, and revenue diversity.

Determining proper asset and liability valuations as well as establishing detailed funding and liquidity objectives are also essential. The Corporation performs oversight reviews using independent risk management, credit, finance, corporate audit and compliance units, each critical to managing risk.

To monitor risks associated with assets and liabilities, the Corporation has established a Reserve Committee of Senior Management ("Reserve Committee") composed of legal, credit, finance, corporate audit, risk management, and operations personnel. Finance personnel,who report to the Chief Financial Officer, work closely with business managers to establish appropriate levels of accounting reserves commensurate with business risks and activities. The Reserve Committee meets monthly to review current market conditions, and act on specific issues brought to its attention by finance and business personnel.

Trading inventories are monitored on a global basis for aging and concentration levels in specific issues and issuers. Finance personnel from the Chief Financial Officer's division independently review the pricing of trading inventories and formula-driven contractual arrangements. Any specific issues requiring action are brought to the attention of trading management and, as appropriate, the Reserve Committee. The Corporation has established policies and procedures for recognizing provisions for loss and utilization of reserves which consider historical experience and current business conditions.

The Corporate Audit and Compliance Units provide oversight functions. Corporate Audit, which reports to the Audit and Finance Committee of the Board of Directors, provides management with an independent assessment of the Corporation's operations and control environment through reviews of business and operational areas.

The Compliance Unit establishes procedures to see that management's policies encompassing conduct, ethics and business practices are followed, and external regulatory requirements are strictly enforced. Compliance reports directly to the Vice Chairman and General Counsel. Adherence with corporate policy is accomplished by conducting education programs, monitoring the Corporation's businesses, evaluating supervisory procedures, and recommending internal disciplinary action when necessary. The Corporation's reputation and assets are protected through increased training and awareness which emphasizes protection of clients' interests and the Corporation's integrity.

Market Risk

The Corporation's trading activities are primarily client order flow driven rather than proprietary, with hedging transactions executed where appropriate. This strategy helps reduce volatility in principal transactions revenues.

Risk Management monitors the Corporation's exposure to losses in the value of its trading inventory resulting from changes in the market environment. Inventory values are affected by changes in interest rates and credit spreads, currency fluctuation, and market volatility and liquidity. Risk Management is headed by a Senior Vice President, who is a member of the Executive Management Committee and reports directly to the Chairman and Chief Executive Officer. Risk Management sets and monitors all trading limits, actively monitors trading and inventory exposures, approves new products in conjunction with the Corporation's new product review process, and has the authority to require reductions in specific trading desk exposures or to veto proposed transactions.

Risk Management is organized along product lines with independent professionals responsible for maintaining daily contact with specific trading areas. On-line trading systems and complementary risk monitoring systems allow these professionals to track established limit levels and exposures. Certain classes of transactions are automatically subject to prior approval from Risk Management. These include new financial products, proposed equity, emerging market, and high-yield underwritings, and bridge loans.

Trading areas may execute transactions only within their product authority and limits, which are customized for each product. Existing trading positions are regularly compared with established limits. In addition to Risk Management establishing trading limits, individual product areas have established their own more specific trading limits.

Risk Management information systems compare established trading limits with actual positions to determine the exposure to the Corporation. Trading systems are designed to assist traders in mitigating market and other risks prevalent in trading. Risk Management can also access trading systems to allow for monitoring of positions and for performing computerized analytics on various market situations and conditions.

Credit Risk

Credit risk, the risk that a counterparty will fail to perform under its contractual commitments, is monitored by Corporate Credit. Corporate Credit is headed by a Senior Vice President who reports directly to the Executive Vice President responsible for Corporate Strategy, Credit, and Research.

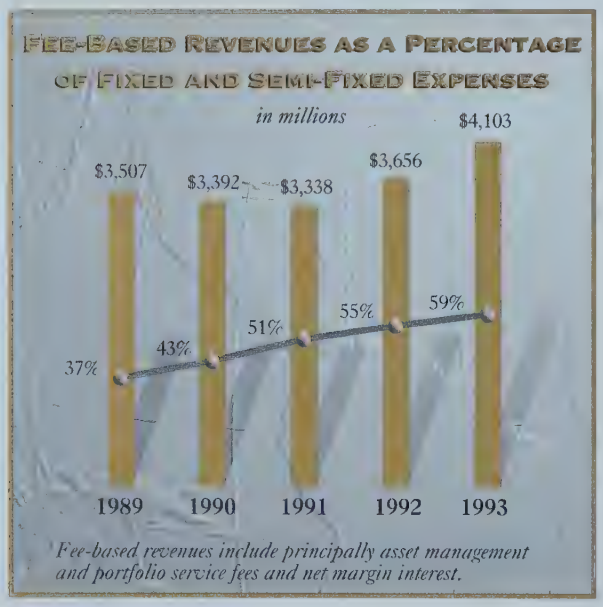
Corporate Credit is centralized and organized geographically, and within each region, along industry lines. Credit officers perform credit analysis, set credit limits by country and by counterparty, approve specific transactions, recommend credit reserves, manage credit exposures, and participate in the new product review process. Credit analysis, in many cases, is enhanced by face-to-face due diligence meetings with counterparties. Many types of transactions, including derivatives, are reviewed and subject to prior approval from Corporate Credit.

Within Corporate Credit, prescribed levels of authority have been established for approval of standard transactions. Required authority levels are governed by the counterparty's credit quality, as well as the maturity and potential risk of the transaction. Transactions which exceed prescribed levels must be approved by the Credit Committee, which is composed of several Senior Credit Officers and the Chief Credit Officer.

The credit information system aggregates credit exposure with each counterparty for its various legal entities. This system maintains overall counterparty limits, specific product limits and limit expiration dates. Detailed information on firmwide inventory positions and transactions executed, including current and potential credit exposure, is updated daily and compared with limits. Collateral, which reduces the Corporation's credit exposure, is obtained as needed and tracked on the credit system. The system enables Corporate Credit to monitor counterparty, product, industry, country, and credit quality concentrations.

Concentration Risk

Concentration risk, the risk that the Corporation's businesses will be dependent upon a single source of revenue, product or market, is periodically reviewed as part of the Corporation's ongoing strategic and business planning process. The Corporation has diversified its revenue sources and continues to grow fee-based businesses to ensure that it is not dependent on a single financial product, customer base or market to generate revenues.



Operational Risk

Operational risk focuses on the Corporation's ability to accumulate, process and communicate information necessary to conduct business in a global market environment. These risks are monitored on both a local and centralized basis. Information systems provide operational risk assessments on transactions in major markets. This technology allows the Corporation to promptly respond to changing market conditions worldwide. As required, systems and equipment are updated for changes in technology. This enables the Corporation to effectively compete in the dynamic financial services industry. Exception reports are also used to manage operational risk, highlight reconciliation issues and enable the Corporation to identify instances where additional collateral is required. These reports also help identify potential business risk exposures and promote compliance with both internal management policies and regulatory requirements. Operations personnel who are responsible for entering trades, report to an operations or business manager, not to the traders. Operations personnel provide support and control for trading, clearance and settlement activities, and perform custodial functions for customer and proprietary assets. Central to management of its operational risk, the Corporation maintains backup facilities worldwide.

STATEMENTS OF CONSOLIDATED EARNINGS

(Dollars in Thousands, Except Per Share Amounts)	*Year Ended Last Friday in December* 1993 *(53 Weeks)*	1992 *(52 Weeks)*	1991 *(52 Weeks)*
Revenues			
Commissions	$ 2,894,228	$ 2,422,084	$ 2,166,301
Interest and dividends	7,099,155	5,806,710	5,761,061
Principal transactions	2,920,439	2,165,725	1,905,728
Investment banking	1,831,253	1,484,067	1,175,992
Asset management and portfolio service fees	1,557,778	1,252,829	1,003,904
Other	285,324	281,253	339,826
Total Revenues	16,588,177	13,412,668	12,352,812
Interest Expense	6,029,947	4,835,267	5,106,344
Net Revenues	10,558,230	8,577,401	7,246,468
Non-Interest Expenses			
Compensation and benefits	5,255,258	4,364,454	3,867,849
Occupancy	572,936	477,754	473,562
Communications and equipment rental	385,809	366,161	356,850
Depreciation and amortization	308,499	281,228	276,125
Advertising and market development	376,881	301,146	249,844
Professional fees	290,324	256,887	235,344
Brokerage, clearing and exchange fees	280,712	277,166	239,828
Other	663,003	631,216	529,648
Total Non-Interest Expenses	8,133,422	6,956,012	6,229,050
Earnings Before Income Taxes and Cumulative Effect of Changes in Accounting Principles	2,424,808	1,621,389	1,017,418
Income tax expense	1,030,449	668,984	321,301
Earnings Before Cumulative Effect of Changes in Accounting Principles	1,394,359	952,405	696,117
Cumulative Effect of Changes in Accounting Principles (net of applicable income taxes of $25,075 in 1993 and $55,291 in 1992)	(35,420)	(58,580)	–
Net Earnings	$ 1,358,939	$ 893,825	$ 696,117
Net Earnings Applicable to Common Stockholders	$ 1,353,558	$ 887,486	$ 678,392
Primary Earnings Per Common Share			
Earnings Before Cumulative Effect of Changes in Accounting Principles	$ 6.14	$ 4.18	$ 3.01
Cumulative Effect of Changes in Accounting Principles	(.16)	(.26)	–
Net Earnings	$ 5.98	$ 3.92	$ 3.01
Fully Diluted Earnings Per Common Share			
Earnings Before Cumulative Effect of Changes in Accounting Principles	$ 6.11	$ 4.17	$ 2.95
Cumulative Effect of Changes in Accounting Principles	(.16)	(.26)	–
Net Earnings	$ 5.95	$ 3.91	$ 2.95

See Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Per Share Amounts)	*December 31,* 1993	*December 25,* 1992
Assets		
Cash and cash equivalents	$ 1,783,408	$ 1,251,572
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	4,069,424	3,424,711
Marketable investment securities	1,749,254	1,173,970
Trading inventories, at fair value		
Corporate debt, contractual agreements, and preferred stock	16,764,084	10,494,877
Non-U.S. Governments and agencies	9,260,725	2,605,337
U.S. Government and agencies	7,287,081	4,937,272
Equities and convertible debentures	6,806,539	2,732,934
Mortgages and mortgage-backed	6,486,464	5,803,322
Money markets	3,337,839	4,009,846
Municipals	1,606,097	1,135,601
Total	51,548,829	31,719,189
Resale agreements	38,137,528	25,002,230
Securities borrowed	19,001,061	13,565,803
Receivables		
Customers *(net of allowance for doubtful accounts of $47,953 in 1993 and $31,230 in 1992)*	13,242,875	9,785,266
Brokers and dealers	7,292,332	4,231,597
Interest and other	2,758,768	1,956,091
Total	23,293,975	15,972,954
Investments of insurance subsidiaries	7,841,444	9,052,839
Loans, notes and mortgages (net of allowance for loan losses of $142,414 in 1993 and $218,960 in 1992)	2,083,553	2,542,760
Other investments	873,806	957,657
Property, leasehold improvements and equipment (net of accumulated depreciation and amortization of $1,677,334 in 1993 and $1,459,020 in 1992)	1,506,964	1,409,115
Other assets	1,021,116	951,373
Total Assets	$152,910,362	$107,024,173

	December 31, 1993	December 25, 1992
Liabilities and Stockholders' Equity		
Liabilities		
Repurchase agreements	$ 56,418,148	$ 32,410,407
Commercial paper and other short-term borrowings	23,214,329	18,769,123
Commitments for securities sold but not yet purchased, at fair value		
U.S. Government and agencies	12,183,271	8,685,321
Equities and convertible debentures	3,953,850	2,114,375
Corporate debt, contractual agreements, and preferred stock	3,577,056	2,641,898
Non-U.S. Governments and agencies	1,762,154	947,808
Municipals	184,041	182,702
Total	21,660,372	14,572,104
Customers	13,571,379	9,897,399
Insurance	7,405,673	8,711,976
Brokers and dealers	4,862,584	2,392,803
Other liabilities and accrued interest	6,823,064	4,830,157
Long-term borrowings	13,468,900	10,871,100
Total Liabilities	147,424,449	102,455,069
Stockholders' Equity		
Preferred Stockholders' Equity		
Preferred stock, par value $1.00 per share (Liquidation preference $100,000 per share); authorized: 25,000,000 shares; issued: 1993 and 1992–3,000 shares; outstanding: 1993 and 1992–1,938 shares	193,800	193,800
Common Stockholders' Equity		
Common stock, par value $1.33⅓ per share; authorized: 500,000,000 shares; issued: 1993–236,330,162 shares; 1992–234,692,848 shares	315,105	312,922
Paid-in capital	1,156,367	1,081,469
Foreign currency translation adjustment	(18,305)	(6,129)
Unrealized appreciation of investment securities available-for-sale (net of applicable income taxes of $12,493)	21,355	–
Retained earnings	4,777,142	3,570,980
Subtotal	6,251,664	4,959,242
Less:		
Treasury stock, at cost: 1993–23,408,139 shares 1992–16,288,488 shares	695,788	286,599
Unallocated ESOP shares, at cost: 1993– 8,932,332 shares 1992–11,201,672 shares	140,684	176,426
Employee stock transactions	123,079	120,913
Total Common Stockholders' Equity	5,292,113	4,375,304
Total Stockholders' Equity	5,485,913	4,569,104
Total Liabilities and Stockholders' Equity	$152,910,362	$107,024,173

See Notes to Consolidated Financial Statements

Statements of Changes in Consolidated Stockholders' Equity

(Dollars in Thousands, Except Per Share Amounts)	*Year Ended Last Friday in December* 1993	1992	1991
Preferred Stock, par value $1.00			
Balance, beginning and end of year (3,000 shares in 1993, 1992 and 1991)	$ 3	$ 3	$ 3
Paid-In Capital, beginning and end of year	299,997	299,997	299,997
Preferred Treasury Stock, at cost			
Balance, beginning of year (1,062 shares in 1993; 945 in 1992)	(106,200)	(94,500)	–
Treasury stock purchased (117 shares in 1992; 945 in 1991)	–	(11,700)	(94,500)
Balance, end of year (1,062 shares in 1993 and 1992; 945 in 1991)	(106,200)	(106,200)	(94,500)
Balance, end of year	$ 193,800	$ 193,800	$ 205,500
Common Stock, par value $1.33 1/3			
Balance, beginning of year (234,692,848 shares in 1993 and 1992; 234,690,600 in 1991)	$ 312,922	$ 312,922	$ 312,920
Issued:			
Employee benefit plans (1,637,314 shares in 1993)	2,183	–	–
To debenture holders through conversion rights (2,248 shares in 1991)	–	–	2
Balance, end of year (236,330,162 shares in 1993; 234,692,848 in 1992 and 1991)	$ 315,105	$ 312,922	$ 312,922
Paid-In Capital			
Balance, beginning of year	$1,081,469	$ 999,612	$ 983,008
Issuance of Common stock:			
To employees	(2,456)	(6,116)	(5,604)
Employee stock grants	13,645	56,326	5,583
To debenture holders through conversion rights	–	–	68
To ESOP (including allocation of shares in 1993, 1992 and 1991)	63,709	31,647	16,557
Balance, end of year	$1,156,367	$1,081,469	$ 999,612
Foreign Currency Translation Adjustment			
Balance, beginning of year	$ (6,129)	$ 10,219	$ 14,585
Translation adjustment*	(12,176)	(16,348)	(4,366)
Balance, end of year	$ (18,305)	$ (6,129)	$ 10,219
Unrealized Appreciation of Investment Securities Available-for-Sale (net of applicable income taxes)			
Balance, end of year	$ 21,355	$ –	$ –
Retained Earnings			
Balance, beginning of year	$3,570,980	$2,803,392	$2,228,721
Net earnings	1,358,939	893,825	696,117
Cash dividends declared:			
Remarketed Preferred stock	(5,290)	(6,745)	(18,080)
Common stock ($.70 per share in 1993; $.575 in 1992; $.50 in 1991)	(147,487)	(119,492)	(103,366)
Balance, end of year	$4,777,142	$3,570,980	$2,803,392
Common Treasury Stock, at cost			
Balance, beginning of year (16,288,488 shares in 1993; 15,612,392 in 1992; 18,949,362 in 1991)	$ (286,599)	$ (167,507)	$ (211,669)
Treasury stock purchased (16,345,568 shares in 1993; 10,653,858 in 1992; 5,919,852 in 1991)	(695,431)	(259,526)	(116,612)
Issued out of treasury (net of reacquisitions):			
Employees (955,391 shares in 1993; 1,272,014 in 1992; 1,763,410 in 1991)	33,299	34,421	30,462
Employee stock grants (8,270,526 shares in 1993; 8,705,748 in 1992; 7,493,412 in 1991)	252,943	106,013	130,312
Balance, end of year (23,408,139 shares in 1993; 16,288,488 in 1992; 15,612,392 in 1991)	$ (695,788)	$ (286,599)	$ (167,507)
Unallocated ESOP Shares, at cost			
Balance, beginning of year (11,201,672 shares in 1993; 13,636,820 in 1992; 16,071,968 in 1991)	$ (176,426)	$ (214,780)	$ (253,133)
Allocation of shares to participants (2,269,340 shares in 1993; 2,435,148 in 1992 and 1991)	35,742	38,354	38,353
Balance, end of year (8,932,332 shares in 1993; 11,201,672 in 1992; 13,636,820 in 1991)	$ (140,684)	$ (176,426)	$ (214,780)
Employee Stock Transactions			
Balance, beginning of year	$ (120,913)	$ (131,270)	$ (149,003)
Net issuance of employee stock grants	(115,251)	(105,342)	(62,025)
Amortization of employee stock grants	106,867	109,908	74,127
Repayment of loans	6,218	5,791	5,631
Balance, end of year	$ (123,079)	$ (120,913)	$ (131,270)
Total Stockholders' Equity	$5,485,913	$4,569,104	$3,818,088

**Net of income tax (expense) benefit of $(1,837) in 1993, $386 in 1992 and $(364) in 1991.*
See Notes to Consolidated Financial Statements

Statements of Consolidated Cash Flows

(Dollars in Thousands)	Year Ended Last Friday in December 1993	1992	1991
Cash Flows from Operating Activities:			
Net Earnings	$ 1,358,939	$ 893,825	$ 696,117
Noncash items included in earnings:			
Cumulative effect of changes in accounting principles	35,420	58,580	–
Depreciation and amortization	308,499	281,228	276,125
Policyholder reserves	516,741	624,012	717,352
Other	649,100	795,220	678,636
(Increase) decrease in operating assets:			
Trading inventories	(19,829,640)	(6,794,804)	(7,610,914)
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	(644,713)	(70,120)	687,437
Securities borrowed	(5,435,258)	(1,734,088)	(4,145,484)
Customers	(3,481,056)	(2,409,415)	(229,054)
Other	(3,708,028)	(550,705)	(3,344,726)
Increase (decrease) in operating liabilities:			
Commitments for securities sold but not yet purchased	7,088,268	4,977,122	3,387,365
Customers	3,673,980	(340,505)	755,849
Insurance	(2,028,539)	(1,221,883)	55,158
Other	4,388,965	276,785	(506,402)
Cash Used for Operating Activities	(17,107,322)	(5,214,748)	(8,582,541)
Cash Flows from Investing Activities:			
Proceeds from (payments for):			
Maturities and sales of investments by insurance subsidiaries	3,983,077	3,904,587	4,537,265
Purchases of investments by insurance subsidiaries	(2,438,571)	(3,304,652)	(5,552,334)
Marketable investment securities	(575,284)	(828,647)	(194,147)
Other investments and other assets	(176,322)	344,263	(158,461)
Property, leasehold improvements and equipment	(406,348)	(131,246)	(188,946)
Cash Provided by (Used for) Investing Activities	386,552	(15,695)	(1,556,623)
Cash Flows from Financing Activities:			
Proceeds from (payments for):			
Repurchase agreements, net of resale agreements	10,872,443	(1,770,519)	7,318,966
Commercial paper and other short-term borrowings	4,445,206	4,593,854	841,211
Issuance and resale of long-term borrowings	7,861,813	6,773,739	6,395,992
Settlement and repurchases of long-term borrowings	(5,263,104)	(3,861,745)	(4,859,142)
Repurchases of Remarketed Preferred stock	–	(11,700)	(94,500)
Other common stock transactions	(510,975)	(189,301)	(54,772)
Dividends	(152,777)	(126,237)	(121,446)
Cash Provided by Financing Activities	17,252,606	5,408,091	9,426,309
Increase (Decrease) in Cash and Cash Equivalents	531,836	177,648	(712,855)
Cash and Cash Equivalents, beginning of year	1,251,572	1,073,924	1,786,779
Cash and Cash Equivalents, end of year	$ 1,783,408	$ 1,251,572	$ 1,073,924

Supplemental Disclosure of Cash Flow Information:
Cash paid for:
Income taxes totaled $1,031,980 in 1993, $590,481 in 1992 and $354,773 in 1991.
Interest totaled $5,788,218 in 1993, $4,753,336 in 1992 and $5,311,974 in 1991.

Supplemental Disclosure of Non-Cash Investing Activities:
Unrealized appreciation of investment securities available-for-sale totaled $21,355, net of applicable income taxes of $12,493 in 1993.

See Notes to Consolidated Financial Statements

(Dollars in Thousands, Except Per Share Amounts)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of Merrill Lynch & Co., Inc. and all significant subsidiaries (collectively referred to as the "Corporation"). All material intercompany balances and transactions have been eliminated.

In 1993, the Corporation reclassified to "Asset management and portfolio service fees" certain fee-based revenues, previously shown on the Statements of Consolidated Earnings as "Other revenues." The reclassifications provide a more meaningful presentation of the Corporation's fee-based services by recording similar items in one revenue line.

On the Consolidated Balance Sheets in 1993, the Corporation reclassified certain fixed-income investment securities from "Other investments" to a new category, "Marketable investment securities." These investments, consisting principally of debt securities, are highly rated, liquid instruments held by subsidiaries of the Corporation to meet rating agency and other requirements. Certain investments in partnerships and joint ventures, previously recorded in "Other assets," were reclassified to "Other investments" to more accurately depict the nature of the asset. The Corporation reclassified its trade date adjustment for international subsidiaries from customer receivables or payables to broker and dealer receivables or payables. Certain other limited classification and format changes have been implemented in the Consolidated Balance Sheets, and Statements of Consolidated Earnings and Cash Flows. Prior years' financial statements have been reclassified to conform to the 1993 presentation.

Trading Positions

Trading inventories and commitments for securities sold but not yet purchased, including assets and liabilities arising from contractual agreements for futures, forwards, options, interest rate and currency swaps, and other derivative products, are recorded at fair value. Fair value is based on quoted market prices, pricing models (utilizing indicators of general market conditions or other such economic measurements) or determined by management based on estimates of amounts to be realized on settlement, assuming current market conditions and an orderly disposition over a reasonable period of time. Net unrealized gains and losses resulting from trading activities are included in earnings of the current period. Trading inventories, commitments for securities sold but not yet purchased, commission revenues, and related expenses are recorded on a trade date basis.

The Corporation enters into when-issued and delayed delivery transactions. Unrealized gains and losses from these transactions are recorded in earnings of the current period.

Investment Securities

Investments in debt and qualifying equity securities are classified as either "held-to-maturity," "trading," or "available-for-sale" in accordance with Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities* ("SFAS No. 115"). (See Accounting Changes Note to the Consolidated Financial Statements.)

Held-to-maturity investments are debt securities which the Corporation has the positive intent and ability to hold to maturity. These investments are recorded at amortized cost unless a decline in value is deemed other than temporary, in which case the carrying value is adjusted. The amortization of premium or accretion of discount, as well as any unrealized loss deemed other than temporary, is included in current period earnings.

Debt and equity securities purchased principally for the purpose of resale in the near term are classified as trading investments and are recorded at fair value. Unrealized gains or losses on these investments are included in earnings of the current period.

Other debt and equity securities which are not categorized as held-to-maturity or trading are classified as available-for-sale and reported at fair value. Unrealized gains or losses on these securities are reported as a separate component of stockholders' equity, net of applicable income tax expense or benefit, and other related items.

Restricted equity investment securities, which are excluded from the provisions of SFAS No. 115, are reported at the lower of cost or estimated net realizable value. Unrealized losses resulting from adjustments to carrying values are included in current period earnings.

Collateralized Financing Activities

Repurchase and resale agreements are accounted for as collateralized financing transactions and are recorded at their contractual amounts, including accrued interest. The Corporation's policy is to take possession of securities purchased under resale agreements. This collateral is valued daily with additional collateral, as required through contractual provisions, obtained when appropriate to ensure that the market value of the underlying collateral remains sufficient.

Securities borrowed and securities loaned are recorded at the amount of cash collateral advanced or received. For non-cash collateral transactions, the fee received or paid by the Corporation is recorded in the Statements of Consolidated Earnings as interest income or interest expense. Securities borrowed transactions require the Corporation to provide the counterparty with collateral in the form of cash, letters of credit, or other securities. The Corporation receives collateral in the form of cash or other securities for securities loaned transactions. The Corporation measures the market value of securities borrowed or loaned against the collateral value daily with additional amounts obtained when appropriate.

Substantially all collateralized financing activities are transacted under master netting agreements which give the Corporation the right, in the event of default, to liquidate collateral held and to setoff receivables and payables with the same counterparty. For financial reporting, the Corporation nets receivables and payables with the same counterparty on the Consolidated Balance Sheets, when appropriate.

[illegible]

Merrill Lynch & Co., Inc. and certain of its wholly owned subsidiaries file a consolidated Federal income

tax return. The Corporation uses the asset and liability method in providing income taxes on all transactions that have been recognized in the financial statements, in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* ("SFAS No. 109"). (See Accounting Changes Note to the Consolidated Financial Statements.) The asset and liability method requires deferred taxes be adjusted to reflect the tax rates at which future taxable amounts will be settled or realized. The effects of tax rate changes on future deferred tax liabilities and deferred tax benefits, as well as other changes in income tax laws, are recognized in net earnings in the period such changes are enacted. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. The consolidated financial statements for 1991 reflect income taxes under the liability method, in accordance with Statement of Financial Accounting Standards No. 96 ("SFAS No. 96"). The Corporation does not provide for deferred income taxes on the undistributed earnings of foreign subsidiaries that are considered to be permanent in duration.

Property, Leasehold Improvements and Equipment

Property (excluding land), leasehold improvements and equipment are reported at historical cost, net of accumulated depreciation and amortization. Land is reported at historical cost.

Depreciation and amortization are computed using the straight-line method. Property and equipment are depreciated over the estimated useful lives of the assets, while leasehold improvements are amortized over the lesser of the estimated economic useful life of the asset or the term of the lease. Maintenance and repair costs are expensed as incurred.

Facilities-related depreciation and amortization expense was $140,340, $130,448 and $130,286 in 1993, 1992 and 1991, respectively. Non-facilities-related depreciation and amortization expense for 1993, 1992 and 1991 was $168,159, $150,780 and $145,839, respectively.

Insurance

Insurance liabilities represent future benefits payable related to annuity and interest-sensitive life contracts and reflect deposits received plus interest credited during the contract accumulation period, the present value of future payments for contracts which have annuitized, and a mortality provision for certain products. Certain policyholder liabilities are also adjusted for those investments classified as available-for-sale (see discussion below). Interest crediting rates range from 2.4% to 10.0%. Liabilities for unpaid claims and claim adjustment expenses are based on the experience of the Corporation. Policy deposits are recorded as insurance liabilities when received. Policy withdrawal, maintenance and other fees are recognized as revenue when earned.

Substantially all investments of insurance subsidiaries, principally debt securities, are classified as available-for-sale and recorded at fair value in accordance with SFAS No. 115. The Corporation records an adjustment to deferred acquisition costs and policyholder account balances which, when combined, are equal to the adjustment that would have been recorded if those available-for-sale investments had been sold at their estimated fair value and the proceeds reinvested at current yields. The corresponding credits or charges for those adjustments are recorded as unrealized gains or losses in stockholders' equity, net of applicable income tax expense or benefit. (See Accounting Changes Note to the Consolidated Financial Statements.) Prior to December 31, 1993, these investments were recorded at amortized cost.

Certain variable costs related to the sale or acquisition of new and renewal insurance contracts have been deferred to the extent such costs are deemed recoverable from future income. Deferred costs are amortized, based on actuarial factors, over the lives of the contracts in proportion to the estimated gross profit expected to be realized for each group of contracts.

The Corporation maintains separate accounts representing segregated funds held for purposes of funding variable annuity and variable life contracts. Subsidiaries of the Corporation receive various administrative and advisory fees for managing such funds. Separate account assets are accounted for as customer assets since the contract holders bear the risk of ownership, consistent with the Corporation's other investment products. Accordingly, separate account assets and the related liabilities are not consolidated with the assets and liabilities of the Corporation.

Translation of Foreign Currencies

Assets and liabilities of foreign subsidiaries are translated at year-end currency exchange rates, while revenues and expenses are translated at average currency exchange rates during the year. Adjustments that result from translating foreign currency financial statements, net of hedging gains or losses and related tax effects, are reported as a separate component of stockholders' equity. Gains or losses from foreign currency transactions are included in earnings of the current period.

For purposes of the Statements of Consolidated Cash Flows, the Corporation defines cash equivalents as short-term, highly liquid floating rate securities and interest-earning deposits with original maturities of less than 90 days.

Interest Expense

Interest expense includes payments in lieu of dividends of $21,436, $12,556 and $32,520 in 1993, 1992 and 1991, respectively.

Other Significant Events

Accounting Changes

During the fourth quarter of 1993, the Corporation adopted Statement of Financial Accounting Standards No. 112, *Employers' Accounting for Postemployment Benefits* ("SFAS No. 112") and SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. SFAS No. 112 was effective as of the 1993 first quarter. Quarterly information has been restated to reflect the impact of this pronouncement. SFAS No. 115 was effective as of the last day of the fiscal year.

SFAS No. 112 establishes accrual accounting standards for employer-provided benefits which cover former or inactive employees after employment but before retirement ("postemployment benefits"). Prior to 1993, the Corporation accounted for such costs on a modified "pay-as-you-go" basis. Postemployment benefits include severance benefits, short- and long-term disability, workers' compensation, and the continuation of certain health care and life insurance coverage. The cumulative effect of this change in accounting principle reported in the Statements of Consolidated Earnings resulted in a charge of $35,420 (net of applicable income tax benefits of $25,075). The effect of adopting SFAS No. 112 on the current year's results of operations was not material.

SFAS No. 115 requires certain subsidiaries of the Corporation, principally insurance and banking, to classify their investments in debt and qualifying equity securities into three categories: "trading," "available-for-sale" or "held-to-maturity." Investments that are classified as trading and available-for-sale are recorded at fair value. Investments in debt securities classified as held-to-maturity continue to be carried at amortized cost. Prior to adoption, the Corporation's non-broker-dealer subsidiaries recorded investments in debt securities at amortized cost and investments in equity securities at the lower of cost or estimated net realizable value. Under SFAS No. 115, unrealized gains or losses on trading investments are reported in current period earnings. Unrealized gains or losses on available-for-sale investments are recorded as a separate component of stockholders' equity (net of applicable income taxes). At December 31, 1993, the increase to stockholders' equity for available-for-sale investments totaled $21,355 (net of $12,493 applicable income taxes). The impact of trading investments on the Corporation's financial statements was not material.

In 1992, the Corporation adopted Statement of Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* ("SFAS No. 106") and SFAS No. 109, *Accounting for Income Taxes*. These changes were effective as of the 1992 first quarter.

SFAS No. 106 requires accrual accounting for postretirement benefits, primarily health care and life insurance benefits. Prior to 1992, the Corporation accounted for such costs on a modified "pay-as-you-go" basis. The cumulative effect of this change in accounting principle, reported in the Statements of Consolidated Earnings, resulted in a charge of $76,354 (net of related income tax benefits of $55,291). The adoption of SFAS No. 106 increased compensation and benefits expense in 1992 by $8,500.

SFAS No. 109 superseded SFAS No. 96 and changed the conditions under which deferred tax assets are recognized. The cumulative effect of this change in accounting principle reported in the Statements of Consolidated Earnings was a credit of $17,774, and related principally to recognition of deferred state and local tax benefits.

Occupancy Charge

The Corporation recorded a non-recurring pretax charge totaling $103,000 ($59,700 after income taxes) in the 1993 first quarter. The non-recurring charge related to the Corporation's decision not to occupy certain office space at its World Financial Center Headquarters facility and, instead, to offer for sublease the unused space to third parties. An agreement to sublet this space was entered into in December 1993.

Fair Value Of Financial Instruments

At December 31, 1993 and December 25, 1992, approximately 98% and 90% of financial instrument assets, and all financial instrument liabilities, respectively, are carried at fair value or amounts which approximate fair value.

Assets carried at amounts which approximate fair value consist predominantly of short-term financial instruments, which include cash and cash equivalents, cash and securities segregated for regulatory purposes or deposited with clearing organizations, resale agreements, securities borrowed, and receivables. Similarly, short-term liabilities, including repurchase agreements, commercial paper and other short-term borrowings, customers, brokers and dealers, and other liabilities and accrued interest, are carried at amounts which approximate fair value. The Corporation's insurance liabilities are exempt from the fair value disclosure requirements.

Trading positions and commitments for securities sold but not yet purchased are carried at fair value. Fair value for these instruments is estimated using market quotations for traded instruments, market quotations of similarly traded instruments and pricing models. Market quotations for traded instruments are obtained from various sources, including the major securities exchanges and dealers. Pricing models, which consider the time value and volatility of the underlying financial instrument, are used to value derivatives and other contractual agreements.

For substantially all long-term borrowings, the Corporation enters into swap agreements to convert fixed interest rate payments into floating rate payments and, in certain instances, to hedge foreign currency exposures. Fair value of these borrowings and related hedge instruments is estimated using current market prices and pricing models. At December 31, 1993 and December 25, 1992, the fair value of these borrowings and related hedge instruments approximated carrying value.

Financial instruments with carrying values different than fair values are presented below:

	December 31, 1993[1]		December 25, 1992	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Insurance subsidiaries' investments	$7,841,444	$7,841,444	$9,052,839	$9,337,816
Merchant banking equity and debt portfolio	$ 780,665	$ 996,581	$1,192,319	$1,480,123
Loans, notes and mortgages (excluding loans related to merchant banking)	$1,628,225	$1,639,551	$1,746,333	$1,756,706
Excess mortgage servicing rights	$ 72,117	$ 117,823	$ 49,065	$ 67,402

[1] *Includes debt and equity securities identified as available-for-sale (see Investments Note to the Consolidated Financial Statements).*

Marketable investment securities principally include U.S. Government and agencies securities, municipal securities, commercial paper, medium-term notes, and corporate debt held by subsidiaries of the Corporation to meet rating agency and other requirements. The fair value of these investment securities is estimated using market quotations. At December 31, 1993 and December 25, 1992, carrying value approximated fair value.

The fair value of insurance subsidiaries' investments is generally estimated by market quotes obtained from exchanges for listed securities or dealers for unlisted securities.

In connection with its merchant banking activities, the Corporation holds certain equity instruments including partnership interests (included in other investments in the Consolidated Balance Sheets), and loans consisting primarily of senior and subordinated debt. Fair value for equity instruments is estimated using a number of methods including earnings multiples, cash flow analyses, review of underlying financial conditions and other market factors. These instruments may be subject to restrictions on disposition (e.g., minority ownership, consent of other investors), which may limit the Corporation's ability to realize currently the estimated fair value. Accordingly, the Corporation's current estimate of fair value and its ultimate realization on these instruments may differ. Loans made in connection with merchant banking activities are carried at unpaid principal balances less a reserve for estimated losses. Fair value is estimated using discounted cash flows.

The Corporation's estimate of fair value for its loans, notes and mortgages (excluding loans made in connection with merchant banking activities) is determined based on loan characteristics. For certain homogeneous categories of loans, including residential mortgages and home equity loans, fair value is estimated using market price quotations or previously executed transactions for securities backed by similar loans adjusted for credit risk and other individual loan characteristics. For the Corporation's floating rate loan receivables, carrying value approximates fair value.

Other assets include capitalized excess mortgage servicing rights. Capitalized excess servicing represents the net present value of estimated future servicing rights for mortgages securitized by the Corporation. Fair value is computed based on the present value of estimated future servicing revenues, using current market assumptions for discount rates, prepayment speeds, default estimates, and interest rate assumptions.

INVESTMENTS

The Corporation has several broad categories of investments on its Consolidated Balance Sheets, including investments of insurance subsidiaries, marketable investment securities and other investments.

The Corporation's insurance subsidiaries have investments which are used to fund policyholder liabilities. Marketable investment securities consist of equity and debt securities held for rating agency purposes or to manage cash flows related to certain liabilities of the Corporation's banking subsidiaries. Other investments consist principally of equity and debt securities which were acquired principally in connection with prior years' merchant banking activities. Certain merchant banking investments are subject to restrictions which may limit the Corporation's ability to realize its investment until such restrictions expire.

On December 31, 1993, the Corporation adopted SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (see Accounting Changes Note to the Consolidated Financial Statements). A reconciliation of the Corporation's investment securities to those reported in the Consolidated Balance Sheets is presented below:

Investments of insurance subsidiaries:	
Available-for-sale	$6,088,443
Trading	164,620
Non-qualifying	1,588,381
Total	$7,841,444
Marketable investment securities:	
Available-for-sale	$ 471,862
Held-to-maturity	1,277,392
Total	$1,749,254
Other investments:	
Available-for-sale	$ 151,801
Held-to-maturity	16,635
Non-qualifying	705,370
Total	$ 873,806

Information regarding investment securities subject to SFAS No. 115 follows:

	Available-for-Sale			
	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
1993				
Corporate debt	$3,516,922	$173,206	$(21,644)	$3,668,484
Governments and agencies	366,690	1,128	(55)	367,763
Municipals	233,595	12,646	(1,152)	245,089
Mortgage-backed securities	2,294,935	91,144	(4,214)	2,381,865
Total debt securities	6,412,142	278,124	(27,065)	6,663,201
Equity securities	45,934	6,591	(3,620)	48,905
Total [1]	$6,458,076	$284,715	$(30,685)	$6,712,106

[1] *See reconciliation below of net unrealized appreciation of investment securities classified as available-for-sale.*

For registrants subject to the information reporting requirements of the Securities Exchange Act of 1934, SFAS No. 115 requires the Corporation's insurance subsidiaries to adjust deferred acquisition costs and certain policyholder liabilities associated with investments classified as available-for-sale. These adjustments are recorded in stockholders' equity and assume that the unrealized gain or loss on available-for-sale securities were realized. The table below provides the components of the amount recorded in stockholders' equity for available-for-sale investments.

Net unrealized appreciation of investment securities available-for-sale	$254,030
Adjustments for policyholder liabilities	(205,495)
Adjustments for deferred policy acquisition costs	(14,687)
Deferred income taxes	(12,493)
Net unrealized appreciation of investment securities classified as available-for-sale	$ 21,355

	Held-to-Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
1993				
Corporate debt	$ 534,452	$1,455	$(648)	$ 535,259
Governments and agencies	203,992	246	(42)	204,196
Municipals	778	46	–	824
Foreign government debt	2,992	40	–	3,032
Mortgage-backed securities	483,966	7,887	–	491,853
Other debt securities	67,847	41	(1)	67,887
Total	$1,294,027	$9,715	$(691)	$1,303,051

At December 31, 1993, the Corporation had $164,620 of insurance trading investment securities which are recorded at fair value. The Corporation's insurance subsidiaries hold policy loans and other non-qualifying investments totaling $1,588,381. The estimated fair value of all investments of insurance subsidiaries was $7,841,444 at December 31, 1993, with gross unrealized gains of $273,482 and gross unrealized losses of $29,096. During 1993, certain debt investments of insurance subsidiaries were sold. Proceeds from sales of debt securities during 1993 were $3,828,224, with gross gains and gross losses realized of $76,145 and $4,564, respectively.

Prior to the adoption of SFAS No. 115, substantially all investments of insurance subsidiaries were carried at amortized cost, unless a decline in value was deemed other than temporary, in which case the carrying value was adjusted.

Information regarding investments of insurance subsidiaries as of December 25, 1992 is presented below:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
1992				
Corporate debt	$3,510,703	$153,911	$(10,006)	$3,654,608
Mortgage-backed securities	3,704,475	153,543	(14,867)	3,843,151
Other debt securities	202,870	4,121	(3,312)	203,679
Total debt securities	7,418,048	311,575	(28,185)	7,701,438
Policy loans and other	1,634,791	1,587	–	1,636,378
Total	$9,052,839	$313,162	$(28,185)	$9,337,816

The carrying value and estimated fair value of debt securities at December 31, 1993 by contractual maturity, for available-for-sale and held-to-maturity investments follow:

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 588,783	$ 595,169	$ 151,431	$ 152,655
Due after one year through five years	1,346,131	1,397,348	633,677	633,346
Due after five years through ten years	1,633,096	1,722,222	2,781	2,803
Due after ten years	549,197	566,597	22,172	22,394
Subtotal	4,117,207	4,281,336	810,061	811,198
Mortgage-backed securities	2,294,935	2,381,865	483,966	491,853
Total [1]	$6,412,142	$6,663,201	$1,294,027	$1,303,051

[1] *Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.*

STOCKHOLDERS' EQUITY

Common Equity

On October 11, 1993 the Corporation's Board of Directors declared a two-for-one common stock split, effected in the form of a 100 percent stock dividend. The new shares were distributed on November 24, 1993 to stockholders of record on October 22, 1993. The par value of these shares remained at $1.33 1/3 per share. Accordingly, an adjustment totaling $157,553 from paid-in capital to common stock was required to preserve the par value of the post-split shares. All share and per share data presented in this Annual Report to Stockholders have been restated for the effect of the split.

During the 1993 second quarter, stockholders of the Corporation approved an increase in the authorized number of shares of common stock from 200 million to 500 million shares. In addition, the Corporation issued 1,637,314 shares of common stock in connection with certain employee benefit plans.

Preferred Equity

The Corporation is authorized to issue 25,000,000 shares of $1.00 par value per share preferred stock of which 3,000 shares of Remarketed Preferred℠ ("RP®") stock, Series C, were issued at $100,000 per share and 1,938 shares are outstanding.

At the end of each dividend period, the RP stock, Series C, is subject to a remarketing process. As part of the remarketing process, both the dividend period and the dividend rate may be adjusted for periods generally of seven or 49 days with a maximum dividend rate dependent on the credit rating assigned to the RP shares. Dividends on RP stock, Series C, are cumulative and payable when declared by the authority of the Corporation's Board of Directors. Dividend rates in effect during 1993 on RP stock, Series C, ranged from 2.45% to 3.40% per annum. The maximum dividend rate on the RP stock, Series C, ranges from 115% to 250% of the "AA" Composite Commercial Paper Rate based on the Moody's and Standard and Poor's ratings on the date on which the dividend rate is reset. Total dividends declared on RP shares in 1993 were $5,290. Generally, the Corporation has the option to redeem the RP stock, Series C shares, in whole or in part, at $100,000 per share plus accumulated dividends on any dividend payment date.

Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), a subsidiary of the Corporation, acts as one of the remarketing agents for the RP stock. As a market maker, MLPF&S may occasionally acquire a temporary position in the RP stock. At December 31, 1993, RP stock held by MLPF&S for the purpose of resale was not material.

The Corporation's Stockholder Rights Plan provides for the distribution of preferred stock purchase rights to common stockholders which separate from the common stock ten days following: (a) an announcement of an acquisition by a person or group ("acquiring party") of 20% or more of the outstanding common shares of the Corporation; or (b) the commencement of a tender offer or exchange offer for 30% or more of the common shares. One-half right is attached to each outstanding share of common stock and will attach to all subsequently issued shares. Rights entitle the holder to purchase fractions of a share ("units") of Series A Junior Preferred Stock, par value $1.00 per share, at an exercise price of $100 per unit. The units of preferred stock are nonredeemable, voting and are entitled to certain preferential dividend rights. The exercise price and the number of units issuable are subject to adjustment to prevent dilution.

If, after the rights have been distributed, the Corporation is a party to a business combination or other specifically defined transaction, each right (other than those held by the acquiring party) will entitle the holder to receive, upon exercise, units of preferred stock or shares of common stock of the surviving company with a value equal to two times the exercise price of the right. The rights expire December 16, 1997 and are redeemable (at the option of a majority of the independent directors of the Corporation) at $.01 per right at any time until the tenth day following an announcement of the acquisition of 20% or more of the Corporation's common shares.

Per Common Share Computation

In 1993 and 1992, the Corporation computed its earnings per common share calculation using the modified treasury stock method ("modified method") in accordance with Accounting Principles Board Opinion No. 15. The modified method is used when the number of shares obtainable upon exercise of outstanding options, warrants and their equivalents exceed 20% of the Corporation's outstanding common stock.

Under this method, all options, warrants and their equivalents are assumed exercised (whether dilutive or antidilutive) with the aggregate proceeds obtained used to repurchase up to 20% of the Corporation's outstanding common stock, subject to certain limitations. If the combined effect of the assumed exercise is dilutive, all options, warrants and their equivalents are included in the computation.

In 1991, the Corporation computed earnings per common share using the treasury stock method. The treasury stock method assumes that any proceeds obtainable upon exercise of dilutive options, warrants or their equivalents would be used to repurchase the Corporation's outstanding common stock.

Primary earnings per common share is computed by dividing net earnings, after deducting preferred stock dividend requirements of $5,381, $6,339 and $17,725 for 1993, 1992 and 1991, respectively, by the weighted average number of common shares and common stock equivalents outstanding during each year. Shares of common stock issuable under various employee stock plans are considered common stock equivalents (incremental shares).

The weighted average number of common shares and incremental shares included in the primary and fully diluted per common share computations follows:

	1993	1992	1991
Primary:			
Weighted average common shares	209,276,000	207,730,000	204,754,000
Incremental shares	17,055,000	18,672,000	20,596,000
Total	226,331,000	226,402,000	225,350,000
Fully Diluted:			
Weighted average common shares	209,276,000	207,730,000	204,754,000
Incremental shares	18,204,000	19,124,000	25,162,000
Total	227,480,000	226,854,000	229,916,000

Commercial Paper and Other Short-Term Borrowings

At December 31, 1993 and December 25, 1992, commercial paper totaled $14,895,540 and $9,578,612, respectively. The weighted average interest rates on these borrowings were 3.10% in 1993 and 3.82% in 1992.

Other short-term borrowings at December 31, 1993 and December 25, 1992 are presented below:

	1993	1992
Demand and time deposits	$5,946,244	$5,569,754
Securities loaned	1,047,059	3,357,555
Bank loans and other	1,325,486	263,202
Total	$8,318,789	$9,190,511

Long-Term Borrowings

Long-term borrowings at December 31, 1993 and December 25, 1992 consisted of the following:

	1993	1992
*Senior Debt**		
U.S. Dollar denominated fixed-rate obligations due 1994 to 2019 at interest rates ranging from 4.75% to 12.125%	$ 5,814,146	$ 5,222,387
Foreign currency denominated fixed-rate obligations due 1994 to 2001 at interest rates ranging from 5.10% to 12.10%	684,637	838,912
U.S. Dollar denominated variable-rate and indexed obligations	782,055	454,637
Foreign currency denominated variable-rate obligations	97,554	17,263
U.S. Dollar denominated medium-term notes	5,983,837	4,239,638
Foreign currency denominated medium-term notes	106,671	98,263
Total	$13,468,900	$10,871,100

** Rates and maturities presented are as of December 31, 1993.*

Maturities of long-term borrowings at December 31, 1993 consisted of the following:

Maturities	Senior Debt
1994	$ 5,693,067
1995	1,878,032
1996	1,061,188
1997	718,746
1998	564,893
1999 and thereafter	3,552,974
Total	$13,468,900

Substantially all of the Corporation's fixed-rate long-term borrowings are swapped into floating interest rates. These swaps are used to hedge interest rate and foreign currency exposures related to the Corporation's long-term borrowings. Payments or receipts from these swaps are recognized as adjustments to interest over the life of the debt obligation.

At December 31, 1993, floating interest rates were obtained on $6,423,370 or 99% of the Corporation's $6,498,783 total U.S. Dollar denominated fixed-rate obligations and foreign currency denominated fixed-rate obligations. Foreign currency denominated fixed-rate

obligations have been swapped into U.S. Dollar liabilities. The effective weighted average interest rate on fixed-rate obligations swapped into floating-rate obligations was 3.42% in 1993. The Corporation's remaining fixed-rate long-term obligations totaling $75,413 had an effective weighted average interest rate of 10.54% in 1993.

Included in U.S. Dollar denominated variable-rate obligations are various derivative-linked indexed instruments issued by the Corporation. Payments on these instruments may be linked to a specific index (e.g., S&P 500) or industry basket of stocks (e.g., telecommunications stocks). These instruments may be exchange listed or sold privately. The Corporation hedges its exposure on these indexed instruments through a combination of swaps and option contracts to purchase the underlying index, or through replication of the stock portfolio.

The effective weighted average interest rates on the Corporation's U.S. Dollar denominated variable-rate obligations and the Corporation's foreign currency denominated variable-rate obligations were both 3.42% in 1993. Floating interest rates are generally based on variable rates such as the London Interbank Offered Rate ("LIBOR"), the "AA" Commercial Paper Composite Rate, U.S. Treasury Bill Rate, or the Federal Funds Rate ("Fed Funds").

The effective weighted average interest rate on all medium-term notes was 3.59% in 1993. Maturities of medium-term notes currently range from nine months to fifteen years from the date of issue.

Certain long-term borrowing agreements contain provisions whereby the borrowings are redeemable at the option of the holder at specified dates prior to maturity. Pursuant to these provisions, long-term borrowings that mature in 1995 and thereafter may be redeemed at the earliest in 1994 and 1995 in the amounts of $373,355 and $10,000, respectively. Management believes, however, that a significant portion of such borrowings may remain outstanding beyond their earliest redemption date.

Subsequent to year-end 1993 and through February 22, 1994, long-term borrowings, net of repayments and repurchases, increased in the amount of approximately $965,698.

Income Taxes

Income tax provisions (benefits) on earnings before the cumulative effect of changes in accounting principles consisted of:

		1993	1992	1991
Federal:	Current	$ 877,903	$435,093	$218,013
	Deferred	(274,517)	(59,007)	(51,774)
State and Local:	Current	376,085	252,498	127,961
	Deferred	(57,760)	(20,868)	(7,343)
Foreign:	Current	163,690	65,271	33,265
	Deferred	(54,952)	(4,003)	1,179
Total		$1,030,449	$668,984	$321,301

A reconciliation of the statutory Federal income tax to the Corporation's income tax provision for earnings before the cumulative effect of accounting changes follows:

	1993	1992	1991
Federal income tax at statutory rates	$ 848,683	$551,272	$345,922
State and local income taxes, net	206,911	152,876	79,607
Tax-exempt interest	(16,228)	(13,706)	(4,142)
Dividends received deduction	(8,249)	(23,730)	(13,378)
Foreign operations	2,704	5,636	12,370
Pension plan transaction	13,705	14,885	20,713
Alternative minimum tax, net of credits recognized	–	–	(77,508)
Utilization of net operating loss tax benefits	–	–	(42,588)
Other, net	(17,077)	(18,249)	305
Total	$1,030,449	$668,984	$321,301

The Omnibus Budget Reconciliation Act of 1993 (the "Revenue Act") was enacted on August 10, 1993. Under the Revenue Act, the corporate statutory rate was increased to 35.0% retroactive to January 1, 1993. The impact of this change is included in the current year's results of operations. The adjustment to record the retroactive increase in the corporate statutory rate was not material.

For financial reporting purposes, the Corporation had no unrecognized net operating loss or alternative minimum tax benefit carryforwards, at December 31, 1993.

Deferred income taxes are provided for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the financial statements. These temporary differences result in taxable or deductible amounts in future years. At December 31, 1993, the Corporation had deferred tax assets and liabilities totaling $998,000 and $315,000, respectively. Deferred tax assets consist principally of valuation and liability reserves of $659,000 and deferred compensation of $91,000. Deferred tax liabilities consist primarily of accelerated tax depreciation of $114,000, lease transactions of $78,000 and unrealized gains on trading inventories of $36,000. At December 31, 1993, the Corporation had a deferred tax valuation allowance of approximately $2,500 for benefits related to losses from certain foreign subsidiaries. During 1993, $75,150 of net income tax benefits were allocated to stockholders' equity related to employee compensation transactions.

At December 25, 1992, the Corporation had deferred tax assets and liabilities totaling $705,000 and $457,000, respectively. Deferred tax assets consisted principally of valuation and liability reserves of $442,000 and deferred compensation of $114,000. Deferred tax liabilities consisted primarily of accelerated tax depreciation of $138,000, lease transactions of $141,000 and unrealized gains on trading inventories of $41,000. At

December 25, 1992, the Corporation had no deferred tax asset valuation allowance. In 1992, $114,487 of net income tax benefits were allocated to stockholders' equity related to employee compensation transactions.

In 1991, the deferred Federal tax provision computed under SFAS No. 96 included tax benefits from both deferred compensation plans of $(26,000) and the divestiture of a subsidiary of $(28,000).

Earnings before income taxes include approximately $395,000, $130,000 and $133,000 of earnings attributable to foreign entities for 1993, 1992 and 1991, respectively. Cumulative undistributed earnings of foreign subsidiaries amounted to approximately $673,000, at December 31, 1993. No deferred Federal income taxes have been provided for the undistributed earnings as these earnings have been, and will continue to be, reinvested in the Corporation's foreign operations. Assuming utilization of foreign tax credits, the Corporation estimates that approximately $84,000 of Federal taxes and $32,000 of foreign withholding taxes would be incurred on the repatriation of the foreign subsidiaries' earnings.

OLVING CREDIT AGREEMENTS

The Corporation has obtained committed, unsecured revolving lines of credit aggregating $4,680,000 under agreements with two groups of banks. There have never been any borrowings under current or prior revolving credit agreements. The agreements contain covenants that require, among other things, that the Corporation maintain specified levels of net worth, as defined in the agreements, on the date of an advance. The details of these agreements as of December 31, 1993 are presented below:

	1993	Maturity
Committed Unsecured Revolving Lines of Credit:		
International and Regional Banks	$3,455,000	1994*
Money Center Banks	1,225,000	1994**
Total	$4,680,000	

$935,000 expires in March 1994; $1,105,000 expires in June 1994; $1,415,000 expires in November 1994. At maturity, the Corporation may convert amounts then borrowed, if any, into term loans which would mature in March, June and November 1996, respectively.

***At maturity in June 1994, the Corporation may convert amounts then borrowed, if any, into a term loan which would mature in June 1996.*

REGULATORY REQUIREMENTS AND DIVIDEND RESTRICTIONS

MLPF&S, a registered broker-dealer, is subject to the Securities and Exchange Commission's ("SEC") Net Capital Rule 15c3-1. Under the alternative method permitted by this rule, the minimum required net capital, as defined, shall not be less than 2% of aggregate debit items arising from customer transactions. At December 31, 1993, MLPF&S's regulatory net capital of $1,178,421 was 9% of aggregate debit items, and its regulatory net capital in excess of the minimum required was $928,951.

In addition to amounts presented in the accompanying Consolidated Balance Sheets as cash and securities segregated for regulatory purposes or deposited with clearing organizations, securities with a market value of $837,725, primarily collateralizing resale agreements, have been segregated in a special reserve bank account for the exclusive benefit of customers pursuant to the Reserve Formula requirements of SEC Rule 15c3-3.

Merrill Lynch Government Securities Inc. ("MLGSI"), a primary dealer in U.S. Government securities and a subsidiary of the Corporation, is subject to the Capital Adequacy Rule of the Government Securities Act of 1986. This rule requires dealers to maintain liquid capital in excess of market and credit risk, as defined, by 20% (a 1.2-to-1 capital-to-risk standard). At December 31, 1993, MLGSI's liquid capital of $1,309,081 was 211% of its total market and credit risk, and liquid capital in excess of the minimum required was $566,089.

Merrill Lynch International Limited ("MLIL") is a United Kingdom registered broker-dealer and is subject to capital requirements of the Securities and Futures Authority. Minimum capital as defined, must exceed total financial resources. At December 31, 1993, MLIL's regulatory net capital was $1,317,655, and exceeded the minimum required by $313,762.

The Corporation's insurance subsidiaries are subject to various regulatory restrictions that limit the amount available for distribution as dividends. As of December 31, 1993, $648,663, representing 88% of the insurance subsidiaries' net assets, was unavailable for distribution to the Corporation.

Over 40 U.S. and non-U.S. subsidiaries are subject to regulatory requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. These regulatory restrictions may limit the amounts that these subsidiaries dividend or advance to the Corporation. At December 31, 1993, restricted net assets of all subsidiaries were $4,338,640. In addition, to satisfy rating agency standards, a subsidiary of the Corporation must also meet certain minimum capital requirements. At December 31, 1993, this minimum capital requirement was $358,256.

There are no restrictions on the Corporation's present ability to pay dividends on common stock, other than (a) the Corporation's obligation first to make dividend payments on its preferred stock; and (b) the governing provisions of the Delaware General Corporation Law.

EMPLOYEE BENEFIT PLANS

The Corporation provides retirement benefits to its employees worldwide through defined contribution plans, a group annuity contract and international defined benefit plans. The Corporation reserves the right to amend or terminate these plans at any time.

Defined Contribution Plans

The U.S. defined contribution plans consist of the Retirement Accumulation Plan ("RAP"), the Employee Stock Ownership Plan ("ESOP"), and the 401(k) Savings & Investment Plan ("SIP"). The RAP, ESOP and SIP

cover substantially all U.S. employees who have met the age and/or service requirements.

Allocations of stock held in the ESOP and cash contributions to the RAP are made quarterly based on years of service, age and eligible compensation. Generally, only cash contributions are deductible for income tax purposes.

In 1989, the Corporation sold 24,341,470 shares of common stock to the ESOP trust. The ESOP trust acquired the shares with residual funds transferred from a terminated defined benefit pension plan and loan proceeds from a subsidiary of the Corporation.

Shares held in the ESOP resulting from cash funding are being allocated to participants' accounts over a period of not more than eight years, ending in 1997. Shares held in the ESOP funded by the loan are allocated to participants' accounts as principal as the loan is repaid. The loan to the ESOP trust, due September 5, 1999, bears interest at 9.1% per annum, with principal and interest payable quarterly upon receipt of dividends on certain shares of common stock or other cash contributions. Interest incurred on the ESOP debt during 1993, 1992 and 1991 amounted to $4,675, $5,119 and $5,626, respectively. The 1993, 1992 and 1991 dividends on ESOP shares used for debt service amounted to $10,044, $9,678 and $9,705, respectively.

As of December 31, 1993, 10,964,694 shares were allocated to participant accounts since the inception of the ESOP. The unallocated portion of shares purchased with the residual funds of $140,684 from the terminated defined benefit pension plan, and the $46,470 outstanding loan to the ESOP trust, which is included in employee stock transactions, are included as reductions to stockholders' equity.

Employees can participate in the SIP by contributing, on a tax deferred basis, up to 15% of their eligible compensation but not more than the maximum annual amount allowed by law. The Corporation's contributions are equal to one-half of the first 4% of each participant's eligible compensation contributed to the SIP, up to a maximum of fifteen hundred dollars annually. No corporate contributions are made for participants who are also Employee Stock Purchase Plan participants.

Group Annuity Contract

In the U.S., the Corporation purchased a group annuity contract from Metropolitan Life Insurance Company ("Metropolitan") which guarantees the payment of benefits vested under a defined benefit plan terminated in accordance with the applicable provisions of the Employee Retirement Income Security Act of 1974. At December 31, 1993, a substantial portion of the assets of Metropolitan supporting the annuity were invested in U.S. Government and agency securities. The Corporation, under a supplemental agreement, may be responsible for, or benefit from, actuarial experience and investment performance of these annuity assets.

International Defined Benefit Plans

Employees of certain non-U.S. subsidiaries participate in various local plans. These pension plans provide benefits that are generally based on years of credited service and a percentage of the employee's eligible compensation during the final years of employment. The Corporation's funding policy has been to contribute annually the amount necessary to satisfy local funding standards.

Pension Plan Cost and Funded Status

Pension cost includes the following components:

	1993	1992	1991
Defined benefit plans[1]:			
Service cost for benefits earned during the year[2]	$ 12,328	$ 11,333	$ 8,512
Interest cost on projected benefit obligation	89,115	84,366	78,254
Actual return on plan assets	(281,022)	(107,549)	(189,527)
Deferral and amortization of unrecognized items	188,700	21,441	107,004
Total defined benefit plan cost	9,121	9,591	4,243
Defined contribution plan cost	146,148	133,264	111,904
Total pension cost[3]	$155,269	$142,855	$116,147

[1] *The following actuarial assumptions were used in calculating the defined benefit cost (credit) and benefit obligations. Rates as of the beginning of the year are:*

	1994	1993	1992
Discount rate	6.7%	7.9%	8.0%
Rate of compensation increase (not applicable to terminated plan)	5.9%	6.3%	7.5%
Expected long-term rate of return on plan assets	6.7%	7.6%	7.6%

[2] *The Corporation calculated service cost using the projected unit credit method based on years of service to date.*

[3] *Total pension cost excludes supplemental retirement and other benefit plan costs.*

The funded status of the defined benefit plans (including the terminated plan) follows:

	1993		1992	
	Pension plans in which:		Pension plans in which:	
	Assets Exceeded Accumulated Benefits	Accumulated Benefits Exceeded Assets	Assets Exceeded Accumulated Benefits	Accumulated Benefits Exceeded Assets
Actuarial present value of:				
Vested accumulated benefit obligation	$(1,266,994)	$(33,072)	$(1,060,598)	$(27,478)
Non-vested accumulated benefit obligation	(3,903)	(4,877)	(3,523)	(3,663)
Accumulated benefit obligation	(1,270,897)	(37,949)	(1,064,121)	(31,141)
Effect of assumed increase in compensation levels	(17,430)	(17,309)	(18,050)	(15,743)
Projected benefit obligation	(1,288,327)	(55,258)	(1,082,171)	(46,884)
Plan assets at fair value	1,445,016	12,503	1,191,834	13,162
Plan assets in excess of (less than) projected benefit obligation	156,689	(42,755)	109,663	(33,722)
Unrecognized net liability at transition	3,460	1,368	3,759	1,620
Unrecognized net (gain) loss	(13,526)	13,224	17,740	5,236
Unrecognized prior service (benefit) cost	(2,833)	(1,594)	2,945	(1,178)
Prepaid (accrued) benefit cost	$ 143,790	$(29,757)	$ 134,107	$(28,044)

Supplemental Retirement and Other Benefit Plans

The Corporation also has supplemental retirement and other benefit plans. The unfunded projected benefit obligation was $8,959 and $7,711 in 1993 and 1992, respectively. Supplemental retirement and other benefit plan costs were $1,469, $1,305 and $1,464 in 1993, 1992, and 1991, respectively.

Postretirement Benefits Other Than Pensions

The Corporation provides health and life insurance benefits to retired employees. The health care component is contributory, with retiree contributions adjusted periodically. The life insurance component of the plan is noncontributory. The accounting for health care anticipates future changes in cost-sharing provisions. The Corporation reserves the right to amend or terminate these programs at any time. Full-time employees of the Corporation become eligible for these benefits upon attainment of age 55 and completion of 10 years of service. Prior to the adoption of SFAS No. 106 (see Accounting Changes Note to the Consolidated Financial Statements), the cost of these benefits was expensed as claims were paid and totaled $6,379 in 1991.

Net periodic postretirement benefit expense included the following components:

	1993	1992
Service cost	$ 4,593	$ 4,144
Interest cost on accumulated postretirement benefit obligation	11,254	10,293
Total	$15,847	$14,437

The Corporation pays claims as incurred. As of December 31, 1993, the plan had not been funded. The amounts recognized for the Corporation's postretirement benefit plans follow:

	1993	1992
Accumulated postretirement benefit obligation:		
Retirees	$ (58,597)	$ (61,738)
Fully eligible active plan participants	(36,769)	(37,600)
Other active plan participants	(42,254)	(40,783)
Subtotal	(137,620)	(140,121)
Unrecognized net gain from past experience different from that assumed and from changes in assumptions	(16,900)	–
Postretirement benefits accrued liability	$(154,520)	$(140,121)

The following actuarial assumptions were used in calculating the postretirement benefit cost and obligations. Rates as of the beginning of the year are:

	1994	1993
Discount rate	6.8%	8.0%
Health care cost trend rates (assumed to decrease gradually until the year 2000 and remain constant thereafter):		
Pre-65	12.0%–5.5%	14.0%–7.0%
Post-65	10.0%–4.5%	11.0%–5.0%

The assumed health care cost trend rate has a significant effect on the amounts reported above. Increasing the assumed trend rate by one percentage point per year would increase the accumulated postretirement benefit obligation as of December 31, 1993 and December 25,

1992 by $19,312 and $18,636, respectively, and increase the aggregate of service and interest costs for 1993 and 1992 by $2,659 and $2,180, respectively.

Postemployment Benefits

The Corporation provides salary, medical coverage, life insurance and retirement benefits for employees on extended leave due to injury or illness. The Corporation reserves the right to amend or terminate this program at any time. The Corporation is mandated by state regulation to provide reimbursements for medical costs, rehabilitation costs, and certain lost wages to employees in the event of work-related illness or injury. Federal law also requires the Corporation to offer continued medical coverage to all terminated employees for up to 18 months. Full-time employees are eligible for all of these benefits as of their first day of employment. The Corporation funds these benefit requirements through a combination of self-insured and insured plans.

In 1993, the Corporation adopted SFAS No. 112, *Employers' Accounting for Postemployment Benefits* (see Accounting Changes Note to the Consolidated Financial Statements). A charge of $60,495 ($35,420 after income taxes), representing the transition obligation, was recorded as a cumulative effect of a change in accounting principle. Excluding the cumulative effect charge, the adoption of SFAS No. 112 had no material effect on the Corporation's results of operations.

Employee Stock Plans

Employee Stock Purchase Plan

The Employee Stock Purchase Plan ("ESPP") allows eligible employees to invest from 1% to 10% of their eligible compensation, subject to certain limitations, in the Corporation's common stock at a purchase price equal to 85% of the fair market value of the stock on four quarterly investment dates. Stock purchases are generally made through authorized payroll deductions. Up to 25,000,000 shares of the Corporation's common stock have been authorized for issuance under the ESPP.

The activity in the ESPP for the two most recent fiscal years was as follows:

	ESPP Shares	
	1993	1992
Available, beginning of year	7,914,788	9,246,704
Authorized during the year	–	–
Purchased through plan	(984,432)	(1,331,916)
Available, end of year	6,930,356	7,914,788

Equity Capital Accumulation Plan

The Equity Capital Accumulation Plan ("ECAP") provides for grants for both Performance and Restricted Shares to senior management and other eligible employees who pay no cash consideration therefor. Upon grant, Restricted Shares become issued and outstanding shares of the Corporation's common stock and are subject to forfeiture during the established Restricted Period. A Performance Share is deemed to be equivalent in fair market value to one share of the Corporation's common stock and is subject to forfeiture during the established Performance Period. Performance Shares are payable 50% in cash and 50% in the Corporation's common stock. Payment of Restricted Shares and Performance Shares is contingent upon continued employment for a specified period of time and, with respect to Performance Shares, the achievement of specific performance goals. Up to 26,200,000 shares of the Corporation's common stock have been authorized for issuance under the ECAP. At December 31, 1993, there were 2,813,148 shares available for issuance to employees under the ECAP, which would be reduced to 2,310,480 shares as long as the Corporation continues to have the ECAP qualify under Rule 16b-3 of the Securities Exchange Act of 1934 ("Rule 16b-3 Qualification").

The activity in the ECAP for the years ended December 31, 1993 and December 25, 1992 was as follows:

	Restricted Shares		Performance Share Grants	
	1993	1992	1993	1992
Outstanding, beginning of year	6,962,698	11,595,946	–	645,000
Granted	67,638	25,540	–	–
Paid or released from contingencies	(4,795,464)	(4,455,956)	–	(361,200)
Forfeited	(143,082)	(202,832)	–	(283,800)
Outstanding, end of year	2,091,790	6,962,698	–	–

Financial Consultant Capital Accumulation Award Plan

Under the Financial Consultant Capital Accumulation Award Plan and its predecessor plans ("FCCAAP"), eligible employees are granted awards generally based upon their prior year's performance. Payment for an award is contingent upon continued employment for a specified period of time and is subject to forfeiture during that period. The award is payable at the end of such period in either common shares of the Corporation or in cash, depending on the market value of the Corporation's common stock. A total of 20,222,830 shares of the Corporation's common stock are authorized for issuance under the FCCAAP. Shares of common stock issuable under the FCCAAP may only be from shares held as treasury stock. Although the first grant is scheduled to be paid in 1996, under certain circumstances grants may be paid prior to the scheduled dates. At December 31, 1993, there were 6,869,898 shares available for issuance under the FCCAAP.

Long-Term Incentive Compensation Plan

The Long-Term Incentive Compensation Plan ("Long-Term Plan") provides for grants of Performance Shares and Units, Restricted Shares and Units, Incentive and Nonqualified Stock Options, Stock Appreciation Rights and Other ML & Co. Securities to certain key employ-

ees. Up to 80,000,000 shares of the Corporation's common stock have been authorized for distribution under the Long-Term Plan. Performance Units, Restricted Units and in certain circumstances Stock Appreciation Rights and Other ML & Co. Securities are paid in cash.

Payments under the Long-Term Plan are contingent upon continued employment for a specified period of time, and with respect to Performance Shares and Performance Units, the achievement of specific performance goals.

Upon grant, a Performance Share is deemed to be equivalent in fair market value to one share of the Corporation's common stock, and shares issued in payment could be subject to a Restricted Period subsequent to the termination of the Performance Period. Restricted Shares are shares of the Corporation's common stock that are subject to forfeiture during a Vesting Period. Each Performance and Restricted Unit is deemed to be equivalent in fair market value to one share of common stock and is payable in cash at the end of the Performance Period, or Vesting Period. Performance Shares or Restricted Shares could be subject to a certain Restricted Period subsequent to the termination of the Performance Period or Vesting Period. Cash amounts equal to cash dividends payable on an equivalent number of shares of the Corporation's common stock are payable to Restricted Unit holders and may be payable to Performance Unit and Performance Share holders. As of December 31, 1993, there have been no grants of Performance Shares, Performance Units, Stock Appreciation Rights, Incentive Stock Options, or Other ML & Co. Securities under the Long-Term Plan.

The activity for Restricted Shares and Units under the Long-Term Plan for the years ended December 31, 1993 and December 25, 1992 is presented below:

	Restricted Shares		Restricted Unit Grants	
	1993	1992	1993	1992
Outstanding, beginning of year	4,918,230	6,200,802	5,083,318	6,361,934
Granted	1,720,818	1,624,776	1,765,306	1,632,832
Forfeited or released from contingencies	(4,906,894)	(2,907,348)	(4,950,356)	(2,911,448)
Outstanding, end of year	1,732,154	4,918,230	1,898,268	5,083,318

Under the Long-Term Plan, eligible employees may also be granted Incentive and Nonqualified Stock Options to purchase shares of the Corporation's common stock. The exercise price of Incentive Stock Options may not be less than 100% of the fair market value of the Corporation's common stock at time of grant. The exercise price for Nonqualified Stock Options is established at the time of grant and cannot be less than 50% of the fair market value of a share of common stock at the time of grant. Stock Options granted in 1989 through 1993 are exercisable in four equal installments commencing one year after the date of grant. The Stock Options expire 10 years after their grant date.

The activity for Nonqualified Stock Options under the Long-Term Plan for the years ended December 31, 1993 and December 25, 1992 was as follows:

	Shares Subject To Option	
	1993	1992
Balance, beginning of year	27,408,324	27,280,924
Granted	5,862,666	5,440,700
Exercised	(5,742,374)	(4,607,822)
Forfeited or surrendered	(523,845)	(705,478)
Balance, end of year	27,004,771	27,408,324

At December 31, 1993, approximately 8,741,000 options were exercisable at prices per share ranging from $10.6875 to $34.3750. During 1993, share prices for the attributed fair market value of shares acquired by the exercise of options ranged from $29.4063 to $50.4688.

At December 31, 1993, there were 34,460,360 shares available (net of shares reserved for issuance upon exercise of options) for issuance to employees under the Long-Term Plan. Restricted Shares forfeited by employees after October 31, 1991 (totaling 239,452 shares) have been excluded from shares available for issuance because the Corporation has elected Rule 16b-3 Qualification for the Long-Term Plan. In January 1994, eligible participants were granted Nonqualified Stock Options for 4,526,300 shares. In February 1994, 1,257,827 and 1,495,645 Restricted Shares and Units, respectively, were granted to eligible employees.

Incentive Equity Purchase Plan

The Incentive Equity Purchase Plan ("IEPP") allows selected employees to purchase the Corporation's common stock at a price equal to the book value per share as of the valuation date preceding the purchase date ("Book Value Shares"). These shares may be sold back to the Corporation at the book value per share as of the valuation date preceding the sale (adjusted for certain non-recurring items), provided they have been held for a minimum of six months.

Alternatively, Book Value Shares may be exchanged at any time for a specified number of freely transferable market shares, the number of which is determined by the ratio of book value to market value at the time of purchase. Up to 30,000,000 shares of the Corporation's common stock have been authorized for issuance under the IEPP. At December 31, 1993, 23,788,290 shares were available for purchase by eligible employees. Because the Corporation has elected Rule 16b-3 Qualification for the IEPP, shares reacquired from employees after April 25, 1991 through purchase or exchange have been excluded from total Book Value Shares available for purchase. Book Value Shares outstanding as of December 31, 1993 and December 25, 1992 were 1,464,900 and 1,530,800, respectively.

Management Capital Accumulation Plan

Under the Management Capital Accumulation Plan ("MCAP"), eligible retail management employees are granted MCAP Units. MCAP Units are equivalent to, and payable in, shares of the Corporation's common stock. Payment of MCAP Units is contingent upon continued employment for a specified period of time and is subject to forfeiture during this period. During this period, MCAP Units are credited with an amount equal to cash dividends payable on an equivalent number of shares of the Corporation's common stock. Such dividend equivalents are converted into additional MCAP Units. A total of 4,000,000 shares of the Corporation's common stock are authorized for issuance under the MCAP. Shares of common stock issued under the MCAP may only be from shares held as treasury stock. At December 31, 1993, there were 1,920,498 shares available for issuance to employees under the MCAP. At December 31, 1993, there were no MCAP Units outstanding. At December 25, 1992, 712,800 MCAP Units were outstanding.

Financial Instruments with Off-Balance-Sheet Risk and Concentrations of Credit Risk

The Corporation operates in all major global financial markets and, as such, enters into transactions involving a wide variety of financial instruments that have both on- and off-balance-sheet implications. These financial instruments, often referred to as "derivatives," are represented by a contractual agreement and include financial futures, forward contracts, options, and interest rate, currency, and equity-linked swaps, including swap options, caps, collars and floors.

The Corporation uses derivatives in conjunction with on-balance-sheet financial instruments to facilitate customer transactions, to manage its own interest rate, currency and market risk, and to meet trading and financing needs. Derivative contracts often involve future commitments to swap interest payment streams, to purchase or sell other financial instruments (including mortgage-backed securities) at specified terms on a specified date, or to exchange currencies. In addition, the Corporation purchases and writes options on a wide range of financial instruments such as securities, currencies, futures and various market indices. (See the "Derivative Financial Instruments" section of Management's Discussion and Analysis—unaudited.)

Transactions involving derivative financial instruments may contain both market and credit risk in excess of amounts recognized in the Consolidated Balance Sheets.

Market Risk

Market risk is the potential change in value caused by movements in interest rates, foreign exchange rates or market prices of the underlying financial instrument. Market risk is also caused by volatility and illiquidity in the markets in which financial instruments are traded.

The notional or contractual amounts of derivative financial instruments provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk. In many cases, these financial instruments limit the Corporation's exposure to losses from market risk by hedging other on- or off-balance-sheet transactions. The Corporation seeks to control market risk by developing and refining hedging strategies that correlate price and currency movements of trading inventories and related hedges.

The notional or contractual amounts of these instruments are set forth below:

	Notional or Contractual Amount	
(In Billions)	1993	1992
Forward Contracts:		
Securities [1]	$ 53	$ 33
Foreign Exchange [2]	101	72
Securities Futures Contracts [3]	105	190
Swap Agreements: [4]		
U.S. Dollar	360	224
Non-Dollar	200	133
Options Written:		
Securities	48	17
Foreign Exchange	24	27

[1] *Represents purchases of $29 and sales of $24 in 1993 and purchases of $17 and sales of $16 in 1992.*
[2] *Represents purchases of $50 and sales of $51 in 1993 and purchases of $34 and sales of $38 in 1992.*
[3] *Represents purchases of $30 and sales of $75 in 1993 and purchases of $151 and sales of $39 in 1992.*
[4] *Includes swap options, caps, collars and floors.*

The majority of the Corporation's off-balance-sheet transactions are short-term in duration with a weighted average maturity of approximately 2.62 years as of December 31, 1993 and 2.21 years as of December 25, 1992. The remaining maturities for notional or contractual amounts outstanding for swaps and other derivatives follow:



In addition to futures, forward, swap and option contracts, the Corporation enters into commitments to sell securities not yet purchased which are recorded as liabilities on the Consolidated Balance Sheets. The Corporation is exposed to off-balance-sheet risk that potential market price increases will cause the ultimate obligations under these commitments to exceed the amount recognized on the balance sheet.

Credit Risk

Credit risk is the amount of accounting loss that the Corporation would incur if a counterparty failed to perform its obligations under contractual terms and the collateral held was deemed worthless. The Corporation has controls in place to monitor credit exposures by limiting transactions with specific counterparties and assessing the future creditworthiness of counterparties.

The Corporation also seeks to control credit risk by following an established credit approval process, monitoring credit limits, and by requiring collateral where appropriate. Certain contracts require counterparties to pledge collateral at the onset of the transaction or when certain credit sensitive provisions are triggered during the life of the transaction. Collateral usually is in the form of cash, U.S. Government and government agency securities, medium-term notes or asset-backed securities, depending upon the nature of the transaction. Collateral exposures are monitored and collateral levels and transaction limits are adjusted, as appropriate, to minimize risk. The Corporation also seeks to limit its credit exposure through the use of legally enforceable master netting agreements. These agreements provide for the net settlement of covered contracts with the same counterparty in the event of default or early termination.

The notional or contractual values of financial futures, forward contracts and swap agreements do not represent exposure to credit risk, which is limited to the current cost of replacing those contracts in a gain position (i.e., the accounting loss). For futures contracts, the Corporation usually does not intend to take or make physical delivery of the underlying security, asset, or index. Since futures contracts require daily cash settlement, the related risk of accounting loss at any given time is limited to a one-day net positive change in market value. The replacement cost for purchased option contracts in a gain position, or for written option contracts in a loss position, is recorded separately as an asset or a liability, respectively. Realized and unrealized gains and losses on forward contracts and swaps and other derivatives used for trading and hedging purposes are recognized currently in principal transactions revenues. The net unrealized gain or loss on these contracts is included in the Consolidated Balance Sheets.

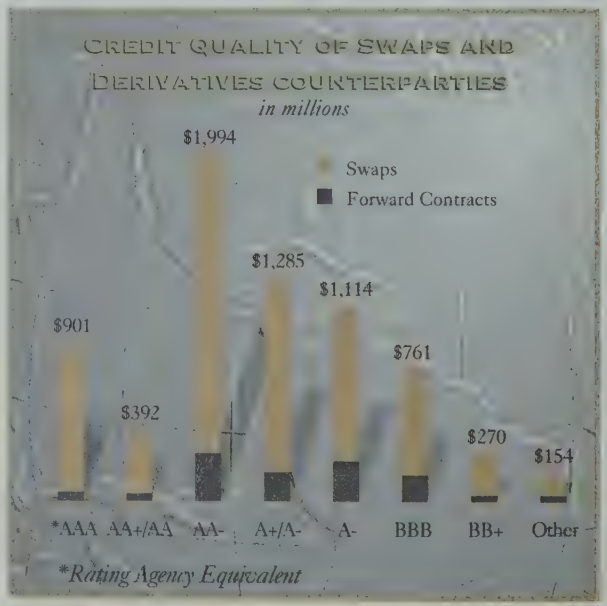
Beginning in 1994, however, the Corporation is required to present unrealized gains as assets and unrealized losses as liabilities separately on the Consolidated Balance Sheets in accordance with Financial Accounting Standards Board Interpretation No. 39 ("Interpretation No. 39"), *Offsetting of Amounts Related to Certain Contracts*. Interpretation No. 39 allows the offsetting of unrealized gains and losses for swap, forward and other similar exchange or conditional type contracts executed with the same counterparty covered by a legally enforceable master netting agreement.

The replacement cost not recorded on the Consolidated Balance Sheet at December 31, 1993 that would have been recorded under Interpretation No. 39 is summarized as follows:

(In Millions)	Forward Contracts	Swap Agreements
Replacement cost of contracts in a gain position	$952	$6,483
Less: (liabilities) assets recorded on the consolidated balance sheet	(6)	735
Credit exposure not recorded on the consolidated balance sheet	$958	$5,748

At December 25, 1992, the replacement cost for forward contracts and swap agreements in a gain position was $1,227,000 and $3,396,000, respectively.

To reduce credit risk, the Corporation requires collateral on certain derivative financial instrument transactions, consisting principally of U.S. Government and agency securities. Presented below is a summary of counterparty credit ratings for the replacement cost (net of $564,000 collateral) of contracts in a gain position. At December 31, 1993, 94% of such contracts were with investment grade counterparties.



In the normal course of business, the Corporation executes, settles and finances various customer securities and commodity transactions. These transactions include the purchase and sale (including "short sales") of securities, the writing of options, and the purchase and sale of commodity and financial futures contracts. These activities may expose the Corporation to off-balance-sheet risk arising from the potential that customers or counterparties may fail to satisfy their obligations and the collateral will be insufficient. In these situations, the Corporation

may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to its customers or counterparties. The Corporation seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with regulatory and internal guidelines.

The Corporation also borrows and lends securities to finance securities transactions and to facilitate the settlement process, utilizing both securities owned by the Corporation and securities owned by customers collateralizing margin debt. In addition, security transactions are financed through collateralized resale and repurchase agreements.

The Corporation enters into resale agreements, generally collateralized by U.S. Government and government agency securities, medium-term notes or asset-backed securities with a market value in excess of the Corporation's receivable under the contract. For repurchase agreements, the Corporation provides collateral to counterparties with a market value in excess of the Corporation's obligation under the contract.

Liabilities to other brokers and dealers related to unsettled transactions (i.e., securities failed to receive) are recorded at the amount for which the securities were acquired and are paid upon receipt of the securities from other brokers or dealers. In the case of aged securities failed to receive, the Corporation may purchase the underlying security in the market and seek reimbursement for losses from the counterparty.

The market value of securities owned by the Corporation that have been loaned or were collateralizing either repurchase agreements or obligations associated with various settlement processes at December 31, 1993 and December 25, 1992, was $45,373,000 and $20,492,000, respectively.

The Corporation, in the normal course of business, enters into commitments to extend credit, predominantly at floating interest rates, in connection with certain merchant banking transactions and to provide customers with lines of credit collateralized by first and second mortgages on real estate or certain liquid assets of small businesses. The Corporation also issues various guarantees to counterparties in connection with certain leasing, securitization, and other transactions. Such commitments and guarantees expose the Corporation to off-balance-sheet credit risk. These commitments and guarantees, which usually have a fixed expiration date, are contingent on certain contractual conditions and may require the payment of a fee by the counterparty. Once commitments are drawn upon or guarantees are issued, the Corporation may require the counterparty to post collateral depending upon the creditworthiness of the counterparty and market conditions. The contractual amounts of these commitments and guarantees represent the amounts at risk should the contract be fully drawn upon, the client default and the value of the existing collateral become worthless.

The total amount of outstanding commitments and guarantees may not represent future cash requirements as commitments may expire without being drawn upon. As of December 31, 1993 and December 25, 1992, the Corporation was committed to extend credit of $1,248,000 and $1,072,000, respectively. As of December 31, 1993 and December 25, 1992, the Corporation had outstanding guarantees totaling $587,000 and $631,000, respectively. The fair value of these outstanding guarantees was $39,000 at year-end 1993 and $43,000 at year-end 1992.

Concentrations of Credit Risk

The Corporation provides brokerage, investment, financing, insurance and related services to a diverse group of domestic and foreign clients which include governments, corporations, and institutional and individual investors. As a market-maker, the Corporation takes principal positions in domestic and foreign governments and corporate obligations.

The Corporation's exposure to credit risk associated with these transactions is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. Concentrations of credit risk can be affected by changes in geographic, industry or economic factors. To alleviate the potential for risk concentration, credit limits are established and continually monitored in light of changing counterparty and market conditions.

At December 31, 1993, the Corporation's most significant concentration of credit risk is with the U.S. Government and its agencies. This concentration arises from trading and investment securities owned. Total holdings of U.S. Government and agency securities, were $8,533,000 or 6% of total assets at December 31, 1993.

At December 31, 1993, the Corporation had concentrations of credit risk with other counterparties including an Asian and a European sovereign both rated AA + or above by Standard and Poor's or Aa1 or above by Moody's. In addition, the Corporation had a concentration of credit risk in short-term debt of a Latin American sovereign predominantly rated A-1 + by Standard and Poor's. The total exposure to these counterparties, excluding collateral held, was $3,498,000 or 2% of total assets.

In addition to these specific exposures, the Corporation's most significant industry concentration is domestic and foreign financial institutions. These financial institutions include other brokers and dealers, commercial banks, insurance companies, and mutual funds. This concentration arises in the normal course of the Corporation's brokerage, trading, financing and underwriting activities. In connection with its mortgage trading activities, the Corporation had resale agreements totaling $3,400,000 with mortgage bankers, banks, and thrifts at December 31, 1993. These agreements were collateralized by whole loans with a market value of $3,800,000.

The Corporation's credit exposure relates to the risk of non-performance by customers or counterparties in fulfilling their contractual obligations, and can be directly influenced by volatile or illiquid trading markets. The Corporation attempts to minimize credit risk associated with these activities by monitoring customer/counterparty credit exposure and collateral values daily and requiring additional collateral to be deposited with or returned to the Corporation when deemed necessary. Additionally, the Corporation monitors regional expo-

sures worldwide. Within these regions, sovereign governments represent the most significant concentration, followed by financial institutions, non-financial institutions and individuals.

In conjunction with its investment and merchant banking activities, the Corporation, from time to time, provides short-term bridge financing and other extensions of credit and equity investments to facilitate leveraged transactions. In the normal course of its business, the Corporation also purchases, sells and makes markets in non-investment grade securities. Non-investment grade securities have been defined as debt and preferred equity securities which are rated by Standard and Poor's as BB+ or lower and by Moody's as Ba1 or lower (or equivalent ratings for other instruments and non-U.S. securities), certain sovereign debt issued by emerging market countries, amounts due under various derivative contracts from non-investment grade counterparties, as well as non-rated securities which in the opinion of management are non-investment grade.

These activities expose the Corporation to a higher degree of credit risk than is associated with investing, extending credit, underwriting and trading in investment grade instruments. At December 31, 1993, the Corporation's aggregate exposure to credit risk (both on- and off-balance-sheet) associated with non-investment grade securities, high-yield financings and highly leveraged transactions amounted to $4,721,000. (See "Non-Investment Grade Holdings and Highly Leveraged Transactions" included in Management's Discussion and Analysis—unaudited.)

COMMITMENTS AND CONTINGENCIES

Leases

The Corporation has entered into various noncancelable long-term lease agreements for premises and equipment that expire through 2024 including the World Financial Center headquarters ("WFC"). The Corporation has also entered into various noncancelable short-term lease agreements which are primarily monthly commitments of less than one year under equipment leases. Future minimum rental commitments with initial or remaining noncancelable lease terms exceeding one year are presented below:

	WFC	Other	Total
Minimum Rental Commitments:			
1994	$ 124,040	$172,108	$ 296,148
1995	$ 124,553	$165,941	$ 290,494
1996	$ 125,409	$149,906	$ 275,315
1997	$ 125,580	$131,209	$ 256,789
1998	$ 129,766	$115,248	$ 245,014
Thereafter	$2,446,263	$639,567	$3,085,830

Total minimum rental commitments have not been reduced by $956,858 of minimum sublease rentals to be received in the future under noncancelable subleases.

Other Commitments

In the normal course of business, the Corporation enters into when-issued transactions and underwriting commitments. Settlement of these transactions as of December 31, 1993, would not have a material effect on the consolidated financial condition of the Corporation.

In the normal course of business, the Corporation obtains letters of credit to satisfy various collateral requirements in lieu of the Corporation depositing securities or cash. A standby letter of credit represents the guarantee of an obligation to a beneficiary on the part of an issuer. Letters of credit aggregated $2,667,000 at December 31, 1993.

The Corporation provides an investment certificate program for all Financial Consultants. Under this program Financial Consultants meeting minimum production and asset gathering criteria are issued investment certificates with a face amount of $100. Such certificates mature 10 years from date issued and are payable if certain performance requirements are achieved. Failure to achieve such performance requirements and to be continuously employed by the Corporation for the 10-year period results (with certain exceptions) in the certificates expiring. The certificates bear interest commencing with the date the requirements are achieved. Financial Consultants who do not initially meet the eligibility requirements become eligible to receive similar certificates upon meeting such requirements. As of December 31, 1993, the Corporation had $102,798 accrued under this plan.

The Corporation has service agreements with providers of communications and data processing services. Under the terms of these agreements, the Corporation receives various communications and market data services. As of December 31, 1993, minimum fee commitments under these contracts aggregated $96,400.

Litigation

There are numerous civil actions, arbitration proceedings and claims pending against the Corporation as of December 31, 1993, some of which involve claims for substantial amounts. Although the ultimate outcome of these matters cannot be ascertained at this time and the results of legal proceedings cannot be predicted with certainty, it is the opinion of management that the resolution of these matters will not have a material adverse effect on the consolidated financial statements of the Corporation. Item 3, "Legal Proceedings," in the Corporation's 1993 Annual Report on Form 10-K, which is unaudited and available upon request, contains additional information concerning pending lawsuits.

INDUSTRY AND GLOBAL OPERATIONS

The Corporation operates principally in the financial services industry and services individual and institutional clients. These services, due to certain legal requirements, are conducted through various subsidiaries including those operating as brokers and dealers, insurance companies, and banks.

The Corporation operates in both international and domestic markets. The Corporation's international

business activities operate through regional offices in the Americas, including Latin America and Canada; Europe and the Middle East; and Asia/Pacific, which includes Japan, the Asia Pacific Region and Australia. In Canada, the Corporation is a broker for securities and commodities and a market-maker for bonds and money market instruments. The Corporation also provides investment banking and research for Canadian clients. The Latin American region provides international banking, brokerage and trust services and has been instrumental in the privatization of many Latin American companies. Europe and Middle Eastern operations offer international investment and private banking services, research, and dealer services in Eurobonds, derivatives, equity and fixed-income securities, futures, commodity contracts, and options.

The Corporation's Asia/Pacific operations conduct business throughout various countries including Japan, Hong Kong, Singapore, Australia, and China. The Corporation has exchange memberships in Tokyo, Hong Kong, Sydney, and Singapore. Traditional retail and institutional services are provided in virtually all locations.

Although no one method of allocating revenues, expenses, and assets is completely precise, the principal methodology used in preparing the international data set forth below includes the following: (i) commission revenues are recorded at the location of the sales force; (ii) trading revenues are principally recorded at the location of the trader; (iii) investment banking revenues are recorded at the location of the client; and (iv) asset management and portfolio service fees are recorded at the location of the fund manager. Earnings before income taxes include the allocation of certain shared expenses among regions. The information presented below, in management's judgment, provides a reasonable representation of each region's contribution to the consolidated amounts.

Global Operations	1993	1992	1991	1993	1992	1991
(In Millions)	Total Revenues			Net Revenues		
Canada and Latin America	$ 526	$ 378	$ 238	$ 377	$ 259	$ 184
Europe and Middle East	3,111	1,867	1,304	1,358	953	772
Asia/Pacific	879	374	335	683	309	273
Subtotal	4,516	2,619	1,877	2,418	1,521	1,229
United States	13,475	11,685	11,136	9,309	7,833	6,512
Eliminations	(1,403)	(891)	(660)	(1,169)	(777)	(495)
Total	$16,588	$13,413	$12,353	$ 10,558	$ 8,577	$ 7,246
	Earnings Before Income Taxes			Total Assets		
Canada and Latin America	$ 139	$ 89	$ 67	$ 5,658	$ 2,145	$ 1,076
Europe and Middle East	481	181	100	37,107	15,645	9,999
Asia/Pacific	191	(3)	12	8,546	2,865	1,569
Subtotal	811	267	179	51,311	20,655	12,644
United States	1,614	1,354	838	106,132	88,835	76,635
Eliminations	–	–	–	(4,533)	(2,466)	(3,020)
Total	$ 2,425	$ 1,621	$ 1,017	$152,910	$107,024	$86,259

Deloitte & Touche

INDEPENDENT AUDITORS' REPORT

To The Board of Directors and Stockholders of Merrill Lynch & Co., Inc.:

We have audited the accompanying consolidated balance sheets of Merrill Lynch & Co., Inc. and subsidiaries as of December 31, 1993 and December 25, 1992 and the related statements of consolidated earnings, changes in consolidated stockholders' equity and consolidated cash flows for each of the three years in the period ended December 31, 1993. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Corporation and its subsidiaries at December 31, 1993 and December 25, 1992, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1993 in conformity with generally accepted accounting principles.

As discussed in the note to the consolidated financial statements entitled, "Accounting Changes," in 1993 the Corporation and its subsidiaries changed their method of accounting for postemployment benefits and their method of accounting for certain investments in debt and equity securities to conform with Statements of Financial Accounting Standards No. 112 and No. 115, respectively, and in 1992 changed their method of accounting for postretirement benefits other than pensions and their method of accounting for income taxes to conform with Statements of Financial Accounting Standards No. 106 and No. 109, respectively.

Deloitte & Touche

New York, New York
February 28, 1994

FIVE-YEAR FINANCIAL SUMMARY

(Dollars in Thousands)	1989		1990		1991		1992		1993	
									Year Ended Last Friday in December	
REVENUES	*(52 Weeks)*		*(52 Weeks)*		*(52 Weeks)*		*(52 Weeks)*		*(53 Weeks)*	
Commissions										
Listed securities	$ 988,801	8.8%	$ 840,650	7.6%	$ 1,064,977	8.6%	$ 1,147,142	8.6%	$ 1,408,943	8.5%
Mutual funds	321,889	2.8	389,524	3.5	519,089	4.2	667,519	5.0	846,213	5.1
Money market instruments	187,159	1.7	189,963	1.7	175,980	1.4	190,525	1.4	165,028	1.0
Other	346,964	3.1	349,017	3.1	406,255	3.3	416,898	3.1	474,044	2.9
Total	1,844,813	16.4	1,769,154	15.9	2,166,301	17.5	2,422,084	18.1	2,894,228	17.5
Interest and Dividends	5,859,767	52.0	5,944,706	53.3	5,761,061	46.7	5,806,710	43.3	7,099,155	42.8
Principal Transactions										
Fixed-income and foreign exchange	866,296	7.7	1,146,974	10.3	1,410,165	11.4	1,631,641	12.1	2,176,427	13.1
Equities	383,142	3.4	312,007	2.8	495,563	4.0	534,084	4.0	744,012	4.5
Total	1,249,438	11.1	1,458,981	13.1	1,905,728	15.4	2,165,725	16.1	2,920,439	17.6
Investment Banking										
Underwriting	737,983	6.5	534,835	4.8	1,020,310	8.2	1,308,787	9.8	1,646,960	9.9
Strategic services	357,896	3.2	260,609	2.3	155,682	1.3	175,280	1.3	184,293	1.1
Total	1,095,879	9.7	795,444	7.1	1,175,992	9.5	1,484,067	11.1	1,831,253	11.0
Asset Management and Portfolio Service Fees	676,482	6.0	815,739	7.3	1,003,904	8.1	1,252,829	9.3	1,557,778	9.4
Other	546,844	4.8	363,205	3.3	339,826	2.8	281,253	2.1	285,324	1.7
Total Revenues	11,273,223	100.0	11,147,229	100.0	12,352,812	100.0	13,412,668	100.0	16,588,177	100.0
Interest Expense	5,371,028	47.6	5,363,900	48.1	5,106,344	41.3	4,835,267	36.0	6,029,947	36.4
Net Revenues	5,902,195	52.4	5,783,329	51.9	7,246,468	58.7	8,577,401	64.0	[illegible]	[illegible]
NON-INTEREST EXPENSES										
Compensation and benefits	3,084,028	52.3	3,077,485	53.2	3,867,849	53.4	4,364,454	50.9	5,255,258	49.8
Occupancy	487,928	8.3	519,156	9.0	473,562	6.5	477,754	5.6	572,936	5.4
Communications and equipment rental	445,457	7.5	375,432	6.5	356,850	4.9	366,161	4.3	385,809	3.6
Depreciation and amortization	290,089	4.9	289,361	5.0	276,125	3.8	281,228	3.3	308,499	2.9
Advertising and market development	247,775	4.2	225,712	3.9	249,844	3.5	301,146	3.5	376,881	3.6
Professional fees	249,710	4.2	233,565	4.0	235,344	3.3	256,887	3.0	290,324	2.7
Brokerage, clearing and exchange fees	229,940	3.9	234,031	4.1	239,828	3.3	277,166	3.2	280,712	2.7
Other	555,654	9.4	546,259	9.4	529,648	7.3	631,216	7.3	663,003	6.3
Provision for restructuring	470,000	8.0	–	–	–	–	–	–	–	–
Total Non-Interest Expenses	6,060,581	102.7	5,501,001	95.1	6,229,050	86.0	6,956,012	81.1	8,133,422	77.0
Earnings (Loss) Before Income Taxes, Cumulative Effect of Changes in Accounting Principles and Discontinued Operations	(158,386)	(2.7)	282,328	4.9	1,017,418	14.0	1,621,389	18.9	2,424,808	23.0
Income Tax Expense	58,980	1.0	90,472	1.6	321,301	4.4	668,984	7.8	1,030,449	9.8
Earnings (Loss) Before Cumulative Effect of Changes in Accounting Principles and Discontinued Operations	(217,366)	(3.7)	191,856	3.3	696,117	9.6	952,405	11.1	1,394,359	13.2
Cumulative Effect of Changes in Accounting Principles, Net of Income Taxes	–	–	–	–	–	–	(58,580)	(.7)	(35,420)	(.3)
Discontinued Operations, Net of Income Taxes	3,981	0.1	–	–	–	–	–	–	–	–
Net Earnings (Loss)	$ (213,385)	(3.6)%	$ 191,856	3.3%	$ 696,117	9.6%	$ 893,825	10.4%	[illegible]	[illegible]

*Revenues and Interest Expense are presented as a percentage of Total Revenues. Non-Interest Expenses, Cumulative Effect of Changes in Accounting Principles, Discontinued Operations and Earnings are presented as a percentage of Net Revenues.

QUARTERLY INFORMATION

Presented below are the unaudited results of operations of the Corporation by quarter for 1993 and 1992. Quarterly information includes certain financial statement reclassifications and adjustments for the two-for-one common stock split. The first quarter of 1993 has been restated for the adoption of Statement of Financial Accounting Standards ("SFAS") No. 112. Quarterly results for 1992 include the adoption of SFAS No. 106 and SFAS No. 109 (see Accounting Changes Note to the Consolidated Financial Statements). The quarterly information is prepared in conformity with generally accepted accounting principles and reflects all adjustments (which consist of only normal recurring adjustments except as noted above, and a non-recurring $103,000 1993 first quarter pretax lease charge related to the Corporation's decision not to occupy certain floors at its headquarters facility) that are, in the opinion of management, necessary for a fair presentation of the results of operations for the periods presented. The nature of the Corporation's business is such that the results of an interim period are not necessarily indicative of results for a full year.

(Dollars in Thousands, Except Per Share Amounts)	*For the Quarter Ended* Dec. 31, 1993	Sept. 24, 1993	June 25, 1993	Mar. 26, 1993	Dec. 25, 1992	Sept. 25, 1992	June 26, 1992	Mar. 27, 1992
	(14 weeks)	*(13 weeks)*	*(13 weeks)*	*(13 weeks)*	*(13 weeks)*	*(13 weeks)*	*(13 weeks)*	*(13 weeks)*
Total Revenues	$4,526,136	$4,140,048	$3,963,009	$3,958,984	$3,263,718	$3,385,910	$3,352,714	$3,410,326
Interest Expense	1,768,139	1,506,428	1,408,512	1,346,868	1,186,796	1,230,231	1,226,347	1,191,893
Net Revenues	2,757,997	2,633,620	2,554,497	2,612,116	2,076,922	2,155,679	2,126,367	2,218,433
Non-Interest Expenses	2,160,717	1,991,321	1,959,589	2,021,795	1,715,817	1,761,387	1,736,316	1,742,492
Earnings Before Income Taxes and Cumulative Effect of Changes in Accounting Principles	597,280	642,299	594,908	590,321	361,105	394,292	390,051	475,941
Income Tax Expense	250,041	282,612	249,861	247,935	139,664	165,603	163,821	199,896
Earnings Before Cumulative Effect of Changes in Accounting Principles	347,239	359,687	345,047	342,386	221,441	228,689	226,230	276,045
Cumulative Effect of Changes in Accounting Principles (Net of Applicable Income Taxes)	–	–	–	(35,420)	–	–	–	(58,580)
Net Earnings	$ 347,239	$ 359,687	$ 345,047	$ 306,966	$ 221,441	$ 228,689	$ 226,230	$ 217,465
Earnings Per Common Share:								
Primary	$ 1.53	$ 1.57	$ 1.52	$ 1.35	$.99	$ 1.02	$.99	$.93
Fully Diluted	$ 1.53	$ 1.56	$ 1.51	$ 1.35	$.98	$ 1.02	$.99	$.93

The 1993 and 1992 first quarters include the cumulative effect of changes in accounting principles of $(.16) and $(.26) per common share primary and fully diluted, respectively.
Earnings per common share have been restated for the two-for-one common stock split (see Stockholders' Equity Note to the Consolidated Financial Statements).

DIVIDENDS PER COMMON SHARE
(declared and paid)

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
1993	$.15	$.175	$.175	$.20
1992	$.125	$.15	$.15	$.15

Dividends per common share amounts give effect to the two-for-one common stock split (see Stockholders' Equity Note to the Consolidated Financial Statements).

There are no restrictions on the Corporation's present ability to pay dividends on common stock, other than (a) the Corporation's obligation first to make dividend payments on its preferred stock and (b) the governing provisions of the Delaware General Corporation Law. Certain subsidiaries' ability to declare dividends may also be limited as described in the Regulatory Requirements and Dividend Restrictions Note to the Consolidated Financial Statements.

STOCKHOLDER INFORMATION
Consolidated Transaction Reporting System prices for the specified calendar quarters are noted below. Prices have been restated for the two-for-one common stock split as described in the Notes to Consolidated Financial Statements.

	1st Qtr. High	1st Qtr. Low	2nd Qtr. High	2nd Qtr. Low	3rd Qtr. High	3rd Qtr. Low	4th Qtr. High	4th Qtr. Low
1993	$37 1/16	$28	$40 15/16	$33 5/8	$50 7/8	$39 9/16	$51 3/16	$41 3/4
1992	$33 3/8	$26 3/4	$27 15/16	$22 3/16	$26 7/8	$24	$31 3/8	$23 1/8

The approximate number of record holders of common stock as of February 4, 1994 was 12,600.

William O. Bourke

Retired Chairman and Chief Executive Officer of Reynolds Metals Company, a producer of aluminum products...66 years old...elected a Director of Merrill Lynch in 1987.

Jill K. Conway

Visiting Scholar, Massachusetts Institute of Technology ...President of Smith College from 1975 to 1985...59 years old...elected a Director of Merrill Lynch in 1978.

William J. Crowe, Jr.

Chairman of the Foreign Intelligence Advisory Board for the President of the United States...Admiral, United States Navy (Retired)...served as Chairman of the Joint Chiefs of Staff...Counselor, Center for Strategic and International Studies...Professor of Geopolitics at the University of Oklahoma...69 years old...elected a Director of Merrill Lynch in 1989.

Stephen L. Hammerman

Vice Chairman of the Board and General Counsel... 55 years old...joined Merrill Lynch in 1978.

Robert A. Hanson

Retired Chairman of the Board and formerly Chief Executive Officer of Deere & Company, a manufacturer, distributor, and financier of farm and industrial equipment...69 years old...elected a Director of Merrill Lynch in 1984.

Earle H. Harbison, Jr.

Chairman of Harbison Walker, Inc., a manufacturer of molded plastic products...retired Chairman of the Executive Committee and formerly President and Chief Operating Officer of Monsanto Company... 65 years old...elected a Director of Merrill Lynch in 1987.

George B. Harvey

Chairman of the Board, President and Chief Executive Officer of Pitney Bowes Inc., a provider of mailing, office and logistics systems and management and financial services...62 years old...elected a Director of Merrill Lynch in 1993.

Robert P. Luciano

Chairman and Chief Executive Officer of Schering-Plough Corporation, a health and personal care products company...60 years old...elected a Director of Merrill Lynch in 1989.

John J. Phelan, Jr.

Former Chairman and Chief Executive Officer of the New York Stock Exchange, Inc....Senior Adviser, Boston Consulting Group...member of the Council on Foreign Relations...formerly President of the International Federation of Stock Exchanges...62 years old... became a Director of Merrill Lynch in 1991.

Charles A. Sanders, M.D.

Chairman and formerly Chief Executive Officer of Glaxo Inc., a pharmaceutical company...formerly Vice Chairman of Squibb Corporation...62 years old... elected a Director of Merrill Lynch in 1987.

Daniel P. Tully

Chairman and Chief Executive Officer.. : 62 years old...joined Merrill Lynch in 1955.

William L. Weiss

Chairman of the Board and formerly Chief Executive Officer of Ameritech Corporation, a provider of communications products and services...64 years old...elected a Director of Merrill Lynch in 1993.

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Investment Banking Group

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Marketing & Communications

Barry S. Friedberg

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MERRILL LYNCH & CO., INC.

EXECUTIVE OFFICES

Merrill Lynch & Co., Inc.
World Financial Center
North Tower
New York, New York 10281-1332

COMMON STOCK

Exchange Listings

The common stock of Merrill Lynch (trading symbol MER) is listed on the New York Stock Exchange, Chicago Stock Exchange, Pacific Stock Exchange, Paris Bourse, London Stock Exchange and Tokyo Stock Exchange.

Transfer Agent and Registrar

Merrill Lynch & Co., Inc. is the principal transfer agent for its own common stock. Questions from registered stockholders on dividends, stops, lost and stolen certificates, changes of legal or dividend addresses, and other matters relating to registered stockholder status should be sent to:

Merrill Lynch & Co., Inc.
P.O. Box 20, Church Street Station
New York, NY 10277-1004
Attn: Gregory T. Russo, Secretary

However, registered stockholders wishing to transfer their stock should continue to do so through the following transfer agent and registrar:

Chemical Bank
450 West 33rd Street
New York, NY 10001

The Merrill Lynch Principles

For a copy of *Merrill Lynch Principles*, a booklet describing the basic corporate values discussed in this Annual Report, please write to us at:

Merrill Lynch
Internal Communications
World Financial Center
South Tower
New York, New York 10080-6106

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FORM 10-K ANNUAL REPORT FOR 1993

This Annual Report of Merrill Lynch & Co., Inc. contains much of the financial information that will be included in the 1993 Annual Report on Form 10-K to be filed with the Securities and Exchange Commission. Merrill Lynch will furnish a copy of its 1993 Annual Report on Form 10-K (including financial statements and financial statement schedules but excluding other exhibits), without charge, to any person upon request addressed to Gregory T. Russo, Secretary, Merrill Lynch & Co., Inc., P.O. Box 20, Church Street Station, New York, NY 10277-1004.

EQUAL EMPLOYMENT OPPORTUNITY

Merrill Lynch is committed to Equal Employment Opportunity and to attracting and retaining the most qualified employees regardless of race, national origin, religion, gender, age, or disability. For more information, write to Margaret R. Ingate, Vice President of Merrill Lynch Corporate Staff, Human Resources Development, Merrill Lynch & Co., Inc., World Financial Center, South Tower, New York, NY 10080-6111.

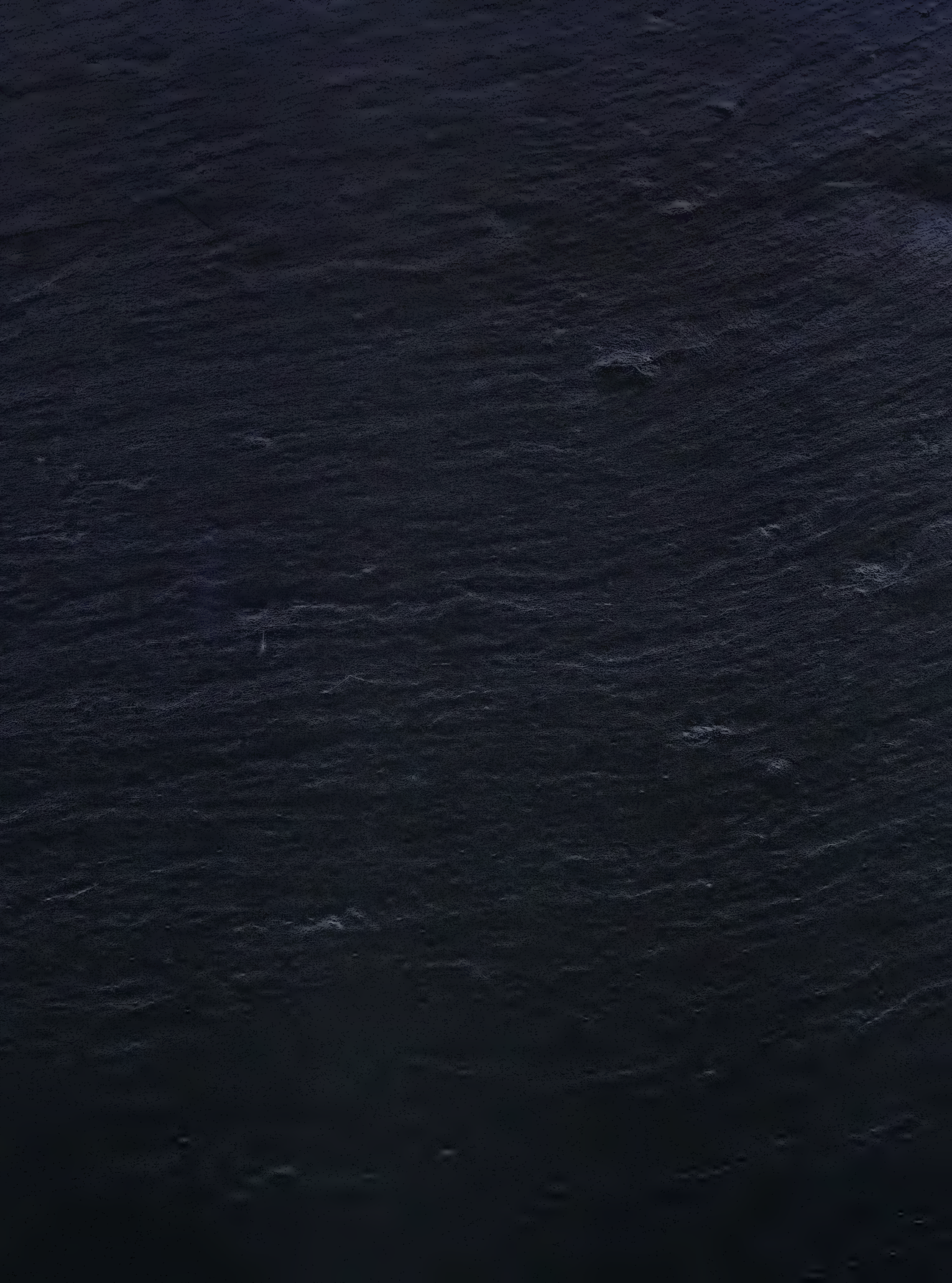
CHARITABLE CONTRIBUTIONS

A summary of the Corporation's charitable contributions is available upon written request to the Secretary.

ANNUAL MEETING

The 1994 Annual Meeting of Merrill Lynch & Co., Inc. stockholders will take place at the Merrill Lynch Conference and Training Center, 800 Scudders Mill Road, Plainsboro, New Jersey. The meeting is scheduled for Tuesday, April 19, 1994, beginning at 10:30 a.m. (local time).

Merrill Lynch expresses its gratitude to Kara Tan Bhala, Malcolm Binks, Farley Bolwell, Donald Elefson, Anna Maria Ewing, Steve Gallagher, J. Michael Giles, Randy Harris, Carlos Higuichi, Ronald Horowitz, Marsha Jones, Thiam J. Lim, John MacKay, Alvin McCain, Louis Mendes, Laurie O'Loughlin-Schulman, Karen Pardo, Philippe Pillonel, Grace Pineda, Paul Richard, John Schautz, Phil Setto, Scott Warner, William Waters, Kathleen White, Greg Wright, Liping Zhang.





Merrill Lynch & Co., Inc.
World Financial Center
North Tower
New York, NY 10281-1332

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Proxy Statement

Notice of the Annual
Meeting of Stockholders
to be held April 29, 1993

Merrill Lynch & Co., Inc.
Conference and Training Center
Plainsboro, New Jersey



Merrill Lynch

Merrill Lynch

March 19, 1993

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders to be held at 10:30 A.M., local time, on Thursday, April 29, 1993, at the Merrill Lynch & Co., Inc. Conference and Training Center, Plainsboro, New Jersey.

Information regarding the business of the meeting is set forth in the following formal Notice of Annual Meeting and Proxy Statement. There will be an opportunity for stockholders to ask questions about our business and to comment on any aspect of company affairs properly brought before the meeting.

We cannot stress strongly enough that the vote of every stockholder, regardless of the number of shares owned, is important. Therefore, after reading the Notice of Annual Meeting and Proxy Statement, even if you plan to attend the meeting, you are urged to complete and return promptly the enclosed form of proxy to ensure that your shares will be represented. A return envelope is enclosed for your convenience. Since mail delays may occur, it is important that the proxy be returned well in advance of the meeting. If you decide to attend the meeting and wish to vote your shares personally, you may revoke your proxy at any time before it is exercised. Merrill Lynch will admit to the meeting stockholders of record, persons holding proof of beneficial ownership or holding proxies, and any other persons that Merrill Lynch, in its sole discretion, may elect to admit.

We look forward to receiving your vote and seeing you at the meeting. Any stockholder requiring directions to the meeting, or who has a disability that may require special assistance, is asked to contact our Corporate Secretary, Gregory T. Russo, at 100 Church Street, 12th Floor, New York, NY 10080-6512.

Sincerely,

WILLIAM A. SCHREYER
Chairman of the Board

DANIEL P. TULLY
President and
Chief Executive Officer



Notice of Annual Meeting of Stockholders to be held April 29, 1993

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of MERRILL LYNCH & CO., INC. ("ML & Co."), a Delaware corporation, will be held on Thursday, April 29, 1993, at 10:30 A.M., local time, at the Merrill Lynch & Co., Inc. Conference and Training Center, 800 Scudders Mill Road, Plainsboro, New Jersey, for the following purposes:

(1) To elect 5 directors to the Board of Directors to hold office for a term of 3 years;

(2) To consider amending the Certificate of Incorporation of ML & Co. to increase the authorized shares of Common Stock from 200,000,000 to 500,000,000 shares;

(3) To consider two stockholder proposals; and

(4) To transact such other business as properly may come before the Annual Meeting and any adjournment thereof.

Only holders of Common Stock of record on the books of ML & Co. at the close of business on March 2, 1993 are entitled to notice of, and to vote at, the Annual Meeting and any adjournment thereof. A list of such stockholders will be available from April 18, 1993 until prior to the meeting, as required by law, at the office of Merrill Lynch Asset Management located at 800 Scudders Mill Road, Plainsboro, New Jersey. This list will also be available at the Annual Meeting. The stock transfer books will not be closed.

Public notice of the date of the Annual Meeting was previously included in ML & Co.'s Quarterly Report on Form 10-Q for the period ended September 25, 1992, which was filed with the Securities and Exchange Commission on November 6, 1992, and in ML & Co.'s Third Quarter Report to stockholders mailed on November 24, 1992.

By Order of the Board of Directors

GREGORY T. RUSSO
Secretary

New York, N.Y.
March 19, 1993

STOCKHOLDERS ARE URGED TO VOTE, SIGN, AND DATE THE ENCLOSED FORM OF PROXY AND TO RETURN IT IN THE ENCLOSED ENVELOPE, WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES.

The Proxy Statement for the Annual Meeting follows this page. For stockholders who have not previously been sent a copy, enclosed is the Annual Report of ML & Co. for 1992, which, except to the extent specifically incorporated by reference herein, is not proxy soliciting material.

Merrill Lynch

Proxy Statement

Annual Meeting of Stockholders
April 29, 1993

March 19, 1993

World Financial Center
North Tower
New York, N.Y. 10281

This Proxy Statement is furnished in connection with the solicitation on behalf of the Board of Directors of Merrill Lynch & Co., Inc., a Delaware corporation ("ML & Co."), of proxies from holders of ML & Co. Common Stock, par value $1.33⅓ per share (the "Common Stock"), eligible to vote at the forthcoming Annual Meeting of Stockholders, and at any adjournment thereof, on the matters set forth in the foregoing Notice of Annual Meeting of Stockholders. The Annual Meeting will be held on Thursday, April 29, 1993, at 10:30 A.M., local time, at the Merrill Lynch & Co., Inc. Conference and Training Center, 800 Scudders Mill Road, Plainsboro, New Jersey.

The close of business on March 2, 1993 has been fixed by the Board of Directors as the record date for determining the stockholders entitled to notice of, and to vote at, the Annual Meeting and at any adjournment thereof. On that date, there were 110,112,266 shares of Common Stock outstanding (excluding treasury shares), the holders thereof being entitled to one vote per share. To the knowledge of ML & Co., except as provided below, no person is the beneficial owner of more than 5% of the outstanding shares of Common Stock.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class(1)
State Street Bank and Trust Company, Trustee ("State Street") 225 Franklin Street Boston, Massachusetts 02110		
Merrill Lynch & Co., Inc. Employee Stock Ownership Plan (the "ESOP")	7,331,033(2)	6.7%
Other Merrill Lynch & Co., Inc. employee benefit plans	1,944,587(3)	1.8%
Other	1,393,910(4)	1.3%
Janus Capital Corporation 100 Fillmore Street , Suite 300 Denver, Colorado 80206-4923	8,379,025(5)	7.6%
The Equitable Companies Incorporated and subsidiaries 787 Seventh Avenue New York, New York 10019	8,155,670(6)	7.4%

(1) Percentages are calculated based on the Common Stock outstanding as of March 2, 1993.

(2) The amount shown is the number of shares of Common Stock that, as of March 2, 1993, were held by the ESOP but had not been allocated to participants; as of that date, an additional 5,110,597 shares of Common Stock allocated to participants were held by the ESOP. Participants have the right to direct the voting of allocated shares by State Street as a co-trustee of the ESOP. Subject to the provisions of the ESOP trust agreement, State Street is obligated to vote unallocated shares, and allocated shares for which it has not received directions, in the same proportion as directed shares are voted. The trust agreement also contains provisions regarding the allocation of shares to participants, the vesting of shares of Common Stock in participants, and the disposition of shares.

(3) Information is as of March 2, 1993. Participants have the right to direct the voting of shares of Common Stock by State Street as a co-trustee of these plans. Subject to the provisions of the trust agreements relating to these employee benefit plans, State Street is obligated to vote shares for which it has not received directions in the same proportion as directed shares are voted. The trust agreements also contain provisions regarding the disposition of shares.

(4) Information concerning the amount and nature of beneficial ownership is as of December 31, 1992 and was supplied by State Street. As trustee for various collective investment funds for employee benefit plans and index accounts not affiliated with ML & Co., State Street has sole power to vote, or to direct the vote of, and sole power to dispose of, or to direct the disposition of, 1,393,910 shares.

(5) Information concerning the amount and nature of beneficial ownership is as of December 31, 1992 and was supplied by Janus Capital Corporation ("Janus Capital"), its majority stockholder, Kansas City Southern Industries, Inc. ("KCSI"), and Janus Capital's President, Thomas H. Bailey (who holds 17.6% of Janus Capital). All shares of Common Stock shown were held by mutual funds and separately managed accounts as to which Janus Capital provides investment advice. Janus Capital, KCSI, and Mr. Bailey disclaim beneficial ownership of such shares. Janus Capital with Mr. Bailey have shared voting and dispositive power over shares held by such mutual funds and separately managed accounts.

(6) Information concerning amount and nature of beneficial ownership is as of December 31, 1992 and was supplied by The Equitable Companies Incorporated (the "Equitable Companies"), AXA, a French insurance holding company that owns 49% of the Equitable Companies ("AXA"), and a group of five French mutual insurance companies that own, as a group, 50% of AXA (the "Mutuelles AXA"). Such information indicates that shares are held by subsidiaries of the Equitable Companies as follows: (i) 8,104,570 are held on behalf of client discretionary investment accounts by Alliance Capital Management, L.P. ("Alliance") (which has sole dispositive power over all such shares, sole voting power over 4,512,200 such shares, and shared voting power over 62,400 such shares); (ii) 1,100 shares are held by The Equitable Life Assurance Society of the United States (which has sole voting and dispositive power over such shares); and (iii) 50,000 are held on behalf of client discretionary investment advisory accounts by Equitable Capital Management Corporation (which has sole voting and dispositive powers over such shares). Each of AXA, the Mutuelles AXA, as a group, and the Equitable Companies, by virtue of their relationship to the Equitable Companies' subsidiaries, may be deemed to have sole voting power over 4,563,300 of the above-mentioned shares and shared voting power over 62,400 of such shares.

The affirmative vote of a plurality of the shares of Common Stock represented in person or by proxy at the Annual Meeting is required for the election of directors, and the affirmative vote of a majority of the outstanding shares of Common Stock is required for the proposed amendment to ML & Co.'s Certificate of Incorporation. All other matters require the affirmative vote of a majority of the shares of Common Stock represented at the Annual Meeting in person or by proxy and entitled to vote. All shares of Common Stock represented by valid proxies received pursuant to this solicitation and not revoked will be voted in accordance with the choices specified. Where no specification is made with respect to any item submitted to a vote, such shares will be voted for the election as directors of ML & Co. of the 5 persons named under the caption "Election of Directors," for the proposal to amend the Certificate of Incorporation to increase the authorized shares of Common Stock, and against the stockholder proposals. Since the proxy confers discretionary authority to vote upon other matters that properly may come before the meeting, shares represented by signed proxies returned to ML & Co. will be voted in accordance with the judgment of the person or persons voting the proxies on any other matters that properly may be brought before the meeting. With regard to the election of directors, votes may be cast in favor or withheld; votes that are withheld will be excluded entirely from the vote and will have no effect. Abstentions may be specified on all proposals (but not on the election of directors) and will be counted as present for purposes of the item on which the abstention is noted. Since the amendment to the Certificate of Incorporation requires the approval of a majority of the outstanding shares, abstentions will have the effect of a negative vote. Abstentions on the two stockholder proposals will have the same effect because they require the affirmative vote of a majority of shares present in person or by proxy and entitled to vote. Under the rules of the New York Stock Exchange, Inc. ("NYSE"), brokers who hold shares in street name for customers have the authority to vote on certain items when they have not received instructions from beneficial owners. Brokers (other than ML & Co.'s subsidiary, Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S")) that do not receive instructions are entitled to vote on the election of directors and the amendment to the Certificate of Incorporation. Under such rules, if MLPF&S does not receive instructions on these items, it is entitled to vote shares only in the same proportion as the shares represented by votes from all record holders. With respect to the two stockholder proposals, neither MLPF&S nor any other broker may vote shares held for customers without specific instructions from such customers. Under applicable Delaware law, a broker non-vote will have the same effect as a vote against the proposed amendment to the Certificate of Incorporation, and will have no effect on the outcome of the election of directors or the two stockholder proposals.

The execution of a proxy will not affect a stockholder's right to attend the Annual Meeting and to vote in person. A stockholder who executes a proxy may revoke it at any time before it is exercised by giving notice to the Secretary of ML & Co. or by filing another proxy.

The expenses involved in the preparation of proxy materials and the solicitation on behalf of the Board of Directors of proxies for the Annual Meeting will be borne by ML & Co. In addition to the solicitation of proxies by mail, solicitation may be made by certain directors, officers, and other employees of ML & Co. or of its subsidiaries in person or by telephone, telegraph, or other means of communication, for which no additional compensation will be paid, and by Georgeson & Co., Inc. for a fee of $18,000 plus expenses. ML & Co. will reimburse brokers, including MLPF&S, and other nominees for costs incurred by them in mailing soliciting materials to the beneficial owners of its stock in accordance with the rules of the NYSE.

The accounting firm of Deloitte & Touche has been selected by the Board of Directors, upon the recommendation of the Audit and Finance Committee of the Board, as independent public accountants of ML & Co. and its subsidiaries during the 1993 fiscal year. Representatives of Deloitte & Touche are expected to be present at the Annual Meeting with the opportunity to make a statement, if they desire to do so, and to answer stockholders' questions.

ELECTION OF DIRECTORS

The Board of Directors of ML & Co. is divided into 3 classes. Each class serves for a 3-year term and one class of directors is elected each year. During the 1992 fiscal year, the Board of Directors met 8 times.

The Board of Directors proposes the election, as directors, of the 5 persons named below, to hold office for a term of 3 years, ending in 1996. The remaining 8 directors named below will continue to serve in accordance with their previous elections. It is intended that shares represented by proxies received in response to this Proxy Statement will be voted for the election of the nominees listed below unless otherwise directed by stockholders in their proxies. While it is not anticipated that any of the nominees will be unable to take office, if that is the case, such shares will be voted in favor of the other person or persons proposed by the Board of Directors.

William A. Schreyer, Chairman of ML & Co., will remain as a director and Chairman of the Board until his retirement on June 28, 1993. He will also continue as Chairman of the Executive Committee of the Board of Directors during this period.

The following information is provided concerning directors of ML & Co., nominees for election as directors, and executive officers. The information as to ownership of Common Stock and certain affiliations is based upon information received from the nominees, directors, and executive officers.

Name, Age, and Principal Occupation for the Last 5 Years(1)	Director Since	Amount and Nature of Beneficial Ownership of Common Stock as of March 5, 1993(2)
NOMINEES FOR ELECTION TO THE BOARD OF DIRECTORS		
For a 3-Year Term Expiring in 1996		
Jill K. Conway, 58 (3)..... Visiting Scholar, Massachusetts Institute of Technology since 1985; President of Smith College from July, 1975 to June, 1985.	1978	1,677
William J. Crowe, Jr., 68 (3)..... Counselor, The Center for Strategic and International Studies, an economic and political consulting organization, since February 1990; Chairman of the President's Foreign Intelligence Advisory Board since January, 1993; Professor of Geopolitics at the University of Oklahoma since January, 1990; Admiral, United States Navy (Retired); Chairman of the Joint Chiefs of Staff, the principal military advisors to the President of the United States of America, from October, 1985 to September, 1989.	1989	868

Name, Age, and Principal Occupation for the Last 5 Years(1)	Director Since	Amount and Nature of Beneficial Ownership of Common Stock as of March 5, 1993(2)
George B. Harvey, 61 (3) Chairman of the Board, President, and Chief Executive Officer of Pitney Bowes Inc., a manufacturer and supplier of mailing and business products, supplies, and services, since 1983.	Not Previously a Director	1,000
Robert P. Luciano, 59 (3) Chairman of the Board of Schering-Plough Corporation, a health and personal care products company, since January, 1984 and Chief Executive Officer since February, 1982.	1989	1,960
William L. Weiss, 63 (3) Chairman of the Board and Chief Executive Officer of Ameritech Corporation, a telecommunications and information services company, since 1983.	Not Previously a Director	200
MEMBERS OF THE BOARD OF DIRECTORS CONTINUING IN OFFICE		
Term Expiring in 1994		
William O. Bourke, 65 Corporate Director (3); Chairman of the Board of Reynolds Metals Company, a producer of aluminum products, from April, 1988 to May, 1992; Chief Executive Officer of that company from April, 1986 to May, 1992; President of that company from January, 1983 to April, 1988.	1987	1,960
Stephen L. Hammerman, 54 Vice Chairman since April, 1992; Executive Vice President from June, 1985 to April, 1992; General Counsel since October, 1984; General Counsel of MLPF&S since March, 1981.	1985	290,766(4)(5)
John J. Phelan, Jr., 61 Corporate Director (3); Senior Adviser to the Boston Consulting Group since October, 1992; Member of the Council on Foreign Relations since 1988; President of the International Federation of Stock Exchanges from January, 1991 to January, 1993; Chairman and Chief Executive Officer of the New York Stock Exchange, Inc. from May, 1984 to December, 1990.	1991	1,960
Charles A. Sanders, M.D., 61 (3) Chairman of the Board of Glaxo Inc., a pharmaceutical company, since January, 1992 and Chief Executive Officer since July, 1989; Vice Chairman of Squibb Corporation, a pharmaceutical and health care products company, from March, 1988 to July, 1989; Executive Vice President of that company from September, 1981 to March, 1988.	1987	1,960

Name, Age, and Principal Occupation for the Last 5 Years(1)	Director Since	Amount and Nature of Beneficial Ownership of Common Stock as of March 5, 1993(2)
MEMBERS OF THE BOARD OF DIRECTORS CONTINUING IN OFFICE		
Term Expiring in 1995		
Robert A. Hanson, 68 Corporate Director (3); Chairman of the Board of Deere & Company, a manufacturer, distributor, and financier of farm and industrial equipment, from October, 1982 to June, 1990; Chief Executive Officer of that company from August, 1982 to August, 1989.	1984	776
Earle H. Harbison, Jr., 64 (3) Chairman of the Executive Committee of Monsanto Company, a provider of chemical and agricultural products, pharmaceuticals, sweeteners, industrial process controls, and man-made fibers, since January, 1993; President and Chief Operating Officer of that company from May, 1986 through December, 1992.	1987	2,660(6)
William A. Schreyer, 65 (3) Chairman of the Board since April, 1985 and Chief Executive Officer from July, 1984 through April, 1992.	1976	797,264(4)(5)
Daniel P. Tully, 61 Chief Executive Officer since May, 1992; President and Chief Operating Officer since July, 1985; Chairman of the Board, President, and Chief Executive Officer of MLPF&S since July, 1985.	1985	714,764(4)(5)
Executive Officers Named in the Summary Compensation Table (in addition to those who are directors)		
John L. Steffens		382,708(4)
David H. Komansky		216,368(4)(5)
Herbert M. Allison, Jr.		246,954(4)
All directors and executive officers of ML & Co. as a group, including those named above		3,830,959(4)(5)(6)

(1) Unless otherwise indicated, the offices listed are of ML & Co.

(2) All directors, nominees, and executive officers have sole investment power and sole voting power over shares listed, except as indicated in notes 4, 5, and 6, below. The percentage of shares beneficially owned by any one director, nominee or executive officer did not exceed 1% of the outstanding Common Stock. All current directors, nominees, and executive officers of ML & Co. as a group owned 3.5% of the outstanding Common Stock.

(3) The following directors and nominees also hold directorships in, or similar affiliations with, the following companies:

William O. Bourke—Reynolds Metals Company; Premark International, Inc.; and Sonat Inc.

Jill K. Conway—The Allen Group, Inc.; Arthur D. Little, Inc.; Colgate-Palmolive Company; and NIKE, Inc.

William J. Crowe, Jr.—General Dynamics Corporation; Norfolk Southern Corporation; Pfizer Inc.; and Texaco Inc.

Robert A. Hanson—The Dun & Bradstreet Corporation; Procter & Gamble Company; R.R. Donnelley & Sons Company; and Texas Instruments Incorporated.

Earle H. Harbison, Jr.—Monsanto Company; Angelica Corporation; and National Life Insurance Company.

George B. Harvey—Pitney Bowes Inc.; Connecticut Mutual Life Insurance Co.; McGraw-Hill, Inc.; and Northeast Utilities.

Robert P. Luciano—Schering-Plough Corporation; Allied-Signal, Inc.; Borden, Inc.; and C.R. Bard, Inc.

John J. Phelan, Jr.—Avon Products, Inc.; Eastman Kodak Company; Metropolitan Life Insurance Company; and Sonat Inc.

Charles A. Sanders, M.D.—Glaxo Holdings p.l.c.; Morton International, Inc.; and Reynolds Metals Company.

William A. Schreyer—Schering-Plough Corporation.

William L. Weiss—Ameritech Corporation; Abbott Laboratories; and The Quaker Oats Company.

(4) Beneficial ownership shown for the following individuals and group also includes the indicated number of shares of Common Stock that may be purchased upon the exercise (presently or within 60 days) of Stock Options granted under the Long-Term Incentive Compensation Plan: William A. Schreyer (472,500); Daniel P. Tully (449,900); Stephen L. Hammerman (176,250); John L. Steffens (228,750); David H. Komansky (108,750); Herbert M. Allison, Jr. (156,250); and all current directors and executive officers of ML & Co. as a group (2,310,815).

(5) Beneficial ownership shown for Mr. Schreyer, Mr. Hammerman, and the group consisting of all directors and executive officers of ML & Co. includes 13,000 shares of Common Stock held in a trust as to which they have shared voting and investment power. Beneficial ownership shown for Mr. Tully and the group consisting of all directors and executive officers of ML & Co. includes 3,800 shares of Common Stock held in a trust as to which he has shared voting and investment power. Beneficial ownership shown for Mr. Komansky and for the group consisting of all directors and executive officers of ML & Co. includes 246 shares of Common Stock held by a charitable foundation of which Mr. Komansky and two other executive officers act as trustees and as to which they have shared voting and investment power.

(6) The number of shares shown for Mr. Harbison includes 1,000 shares held by his wife, as to which he may be deemed to have shared investment power and shared voting power. He has expressly disclaimed beneficial ownership of such 1,000 shares.

John F. Burlingame, age 70, who has served as a director since 1985, will retire and not stand for re-election at the 1993 Annual Meeting of Stockholders. He serves as a director of Eastman Kodak Company and Hershey Foods Corporation. As of March 5, 1993, Mr. Burlingame was the beneficial owner, with sole voting and investment power, of 692 shares of Common Stock.

Committees of the Board of Directors

In addition to an Executive Committee, ML & Co. has standing Audit and Finance, Management Development and Compensation, and Nominating Committees of the Board of Directors.

The Audit and Finance Committee, which was formed in July, 1992 as a result of the combination of the Audit Committee with the Finance Committee, consists of Messrs. Burlingame, who chairs the committee, Crowe, Luciano, and Sanders. The former Audit Committee and the new Audit and Finance Committee held a total of 5 meetings during the 1992 fiscal year. The Audit and Finance Committee (and formerly the Audit Committee) have performed the following functions, among others: monitoring ML & Co.'s system of internal accounting controls and overseeing and evaluating the internal audit function; recommending the appointment and monitoring the performance, independence, and fees of ML & Co.'s independent public accountants and monitoring professional services they provide; reviewing the scope of the annual audit with the independent public accountants and reviewing their reports to Management; reviewing ML & Co.'s annual consolidated financial statements; and overseeing corporate funding policy, securities offerings, budgets and financial objectives, financial commitments and related policies, and risk management policies and procedures.

The Management Development and Compensation Committee, which consists of Mrs. Conway, who chairs the committee, and Messrs. Bourke, Hanson, Harbison, and Phelan, held 9 meetings during the 1992 fiscal year. This committee has performed the following functions, among others: exercising primary responsibility on behalf of the Board of Directors for reviewing and recommending employee compensation programs, policies, and practices, including salary, cash incentive, stock bonus, stock purchase, and other retirement and health and welfare programs; making grants under ML & Co.'s Equity Capital Accumulation Plan and Long-Term Incentive Compensation Plan; discharging the responsibilities described below under the caption "Compensation Committee Report"; and periodically reviewing management development programs and executive succession plans.

The Nominating Committee, which consists of Mr. Hanson, who chairs the committee, Mrs. Conway, Messrs. Burlingame and Harbison (all of whom are voting members) and Messrs. Schreyer and Tully (both of whom are non-voting members) held 2 meetings and had a number of discussions during the 1992 fiscal year. This committee has performed the following functions: seeking potential candidates to serve on the Board of Directors with a view toward a desirable balance of expertise among Board members and recommending to the Board of Directors membership of committees of the Board and nominees to fill vacancies on the Board. The Nominating Committee will consider nominees recommended by stockholders. Those wishing to submit recommendations for the 1994 Annual Meeting of Stockholders should write to Gregory T. Russo, Secretary, Merrill Lynch & Co., Inc., 12th Floor, 100 Church Street, New York, New York 10080-6512.

AMENDMENT OF CERTIFICATE OF INCORPORATION

The Board of Directors recommends adoption by stockholders of an amendment to Article IV of ML & Co.'s Certificate of Incorporation to increase the number of shares of Common Stock that may be issued. The Certificate of Incorporation presently authorizes the issuance of 225,000,000 shares, of which 200,000,000 shares may be Common Stock, having a par value of $1.33⅓ each, and 25,000,000 shares may be Preferred Stock, having a par value of $1.00 each.

Although ML & Co. has no present understandings, agreements, or specific plans concerning the issuance of any of the additional shares to be authorized, the Board of Directors believes it to be in the best interests of ML & Co., and has therefore proposed and declared it advisable, that the Certificate of Incorporation be amended to increase the number of authorized shares of Common Stock, par value $1.33⅓ per share, to 500,000,000 shares and, consequently, to increase the total number of shares of capital stock to 525,000,000. The Board has directed that such amendment be submitted to a vote of stockholders at the Annual Meeting.

Of the shares presently authorized, 110,112,266 shares of Common Stock and 1,938 shares of Preferred Stock were outstanding on March 2, 1993. This does not include 46,104,647 shares of Common Stock reserved for issuance in connection with employee benefit plans, of which 741,810 shares would be issued only if the Corporation were no longer to have such plans qualify under Rule 16b-3 of the Securities Exchange Act of 1934. The Board of Directors believes that the increase in authorized shares will provide for flexibility in future planning and will enable ML & Co. to obtain financing on suitable terms. ML & Co. has not increased its authorized shares of Common and Preferred Stock since 1982, and the Board of Directors believes it important in the years ahead for ML & Co. to maintain an authorized capitalization that will permit a broad range of financing alternatives. If the Certificate of Incorporation is amended, the additional shares will be available for issuance from time to time for use in obtaining funds for present and future operations, for use in conjunction with possible acquisitions of businesses or properties, for use in possible stock dividends and stock splits, or for any other proper corporate purpose. The Board of Directors does not intend to seek further stockholder approval prior to the issuance of any additional shares in future transactions unless required by law, by ML & Co.'s Certificate of Incorporation, or by the rules of any stock exchange upon which the stock may be listed, or unless ML & Co. deems it advisable to do so to qualify (or to continue to qualify) an employee benefit plan in accordance with Rule 16b-3 under the Securities Exchange Act of 1934.

The newly authorized shares of Common Stock will have voting and other rights identical to those of the currently authorized shares of Common Stock.

Common Stock would be issued only if the Board of Directors believed the issuance favorable to, and in the interests of, ML & Co. and its stockholders. Any issuance of additional shares of Common Stock of ML & Co. could dilute the equity of the outstanding shares of Common Stock.

Under the Certificate of Incorporation of ML & Co., holders of Common Stock do not have preemptive rights.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR the adoption of this proposal.

FIRST STOCKHOLDER PROPOSAL

Mrs. Evelyn Y. Davis, Watergate Office Building, 2600 Virginia Ave., N.W., Suite 215, Washington, D.C. 20037, holding 100 shares of Common Stock, has given notice of her intention to propose the following resolution at the Annual Meeting:

> "RESOLVED: That the stockholders of Merrill Lynch, assembled in Annual Meeting in person and by proxy, hereby request the Board of Directors to take the necessary steps to provide for cumulative voting in the election of directors, which means each stockholder shall be entitled to as many votes as shall equal the number of shares he or she owns multiplied by the number of directors to be elected, and he or she may cast all of such votes for a single candidate, or any two or more of them as he or she may see fit."

The following statement has been submitted by Mrs. Davis in support of the resolution:

> "REASONS: Many states have mandatory cumulative voting, so do National Banks."
>
> "In addition, many corporations have adopted cumulative voting."
>
> "Last year the owners of 19,640,055 shares, representing approximately 23.1% of shares voting, voted FOR this proposal."
>
> "If you AGREE, please mark your proxy FOR this resolution."

The Board of Directors recommends a vote AGAINST the adoption of this proposal.

This is the eighth consecutive year that Mrs. Davis has submitted the same proposal, which has been consistently opposed by the Board of Directors and defeated by stockholders every time by a substantial majority of the votes cast.

The reasons the Board of Directors opposes this resolution are essentially the same as those stated in the proxy statements for the prior Annual Meetings at which the proposal was submitted. Under the General Corporation Law of Delaware, the state in which ML & Co. is incorporated, cumulative voting is permissible only if provided for in a corporation's certificate of incorporation. The general rule, which is followed by most large corporations, is that each director must be elected by the affirmative vote of the majority of shares present in person or represented by proxy.

The Board of Directors would recommend a change in the method of stockholder vote only if another method would better serve the interests of the stockholders as a whole. To the contrary, cumulative voting would give stockholders who seek to support a special interest group the potential to elect one or more directors representing the interests of that group. Any directors so elected may view themselves as representatives of the group that elected them and feel obligated to represent the group's interests, regardless of whether the furtherance of those interests would benefit all stockholders generally. This would tend to promote adherence to narrow interests rather than those of stockholders at large, whereas election of directors by simple majority vote is designed to produce a board of directors that views its accountability as being to stockholders generally. Accordingly, the Board of Directors regards the proposed change as not only serving no useful purpose but as being contrary to the best interests of all ML & Co. stockholders.

For the reasons stated above, THE BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST the adoption of this proposal.

SECOND STOCKHOLDER PROPOSAL

Mr. John A. Gearhart, 1010 Park Avenue, Fayetteville, Arkansas 72701, who owns 195 shares of Common Stock, has given notice of his intention to propose for adoption at the Annual Meeting the following proposal:

> "It is recommended that Merrill Lynch's Board of Directors provide its share owners with its objectives and activities to correct the anomalies of the U.S. capital formation process. Specifically, it is requested that Merrill Lynch help correct the high leverage in the stock index futures market, basket trading and "mathematics trading" which currently make a mockery of investment research and capital formation."

The following statement has been submitted by Mr. Gearhart in support of the proposal:

> "Merrill Lynch, as a leader in the investment community, must help provide basic directions for a healthy market situation. It shall provide its owners with information to gain their understanding and support within the industry and with government agencies. Favorable long term capital formation conditions must be recognized as the standard rather than short-sighted speculative and non-productive actions. The trading tail is often wagging the investment animal. Share owners look to their management standards for guidance."

The Board of Directors recommends a vote AGAINST the adoption of this proposal.

This proposal was submitted last year by Mr. Gearhart and was defeated by stockholders by a substantial majority of the votes cast.

The Board of Directors opposes this proposal because it is so vague and indefinite that any action taken to implement it, if adopted, is likely to be different from the action subjectively envisioned under the proposal or by the stockholders who voted in its favor.

In addition, ML & Co. has a longstanding commitment to protecting the integrity and liquidity of the markets, maintaining investor confidence, and working with Congress and our regulators to achieve these goals. ML & Co. has testified before Congress concerning the imposition of adequate control over excess volatility in the marketplace, and ML & Co. has endorsed legislative and regulatory initiatives relating to that issue. ML & Co. has also supported the New York Stock Exchange's initiation of "circuit breakers" which protect against precipitous movements in securities prices. ML & Co. will continue to participate in the development of legislative and regulatory initiatives concerning the securities markets.

For the reasons stated above, THE BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST the adoption of this proposal.

EXECUTIVE COMPENSATION

Compensation Committee Report

Overview

The Management Development and Compensation Committee ("MDCC") of ML & Co.'s Board of Directors is responsible for administering compensation for all executive officers. The MDCC consists of five directors who are not employees of ML & Co. and who are not eligible to participate in any of the compensation programs or plans that the committee administers. It is the responsibility of the MDCC, on behalf of the Board of Directors, to oversee executive compensation programs, policies, and practices, including the salary, incentive compensation, stock option, stock bonus, retirement, or other similar programs and the health and welfare programs of ML & Co. Each year the MDCC conducts a full review of ML & Co.'s executive compensation practices. Included in this review are evaluations of progress toward long-term strategic and financial goals, annual financial performance, and other performance-related criteria. The MDCC has access to advice and counsel from independent third parties concerning matters such as competitive compensation levels within the securities industry. The MDCC also reviews elements of executive officer compensation with the Board of Directors.

Compensation Policies

The executive compensation programs at ML & Co. are designed to (1) attract to executive management high performing individuals from ML & Co.'s existing management and key producer populations, (2) retain those executives capable of leading the corporation to achieve its business goals in a highly competitive industry, and (3) motivate and reward those executives who are accountable and responsible for ML & Co.'s long-term corporate profitability and growth, financial strength, and return to shareholders.

Base salary. Each executive officer's base salary is determined by evaluating, in order of importance, individual performance, competitive pay levels, and length of service in the position. For 1992, base salaries averaged approximately 10% of the cash compensation (salary plus cash bonus) awarded to those executive officers named in the Summary Compensation Table. This relationship of salaries to incentive compensation increases the motivational value of the annual cash incentive. Salary increases for executives are typically considered every two to three years.

Annual cash incentive. ML & Co.'s annual cash bonus provides a direct incentive for executive officers to increase the financial performance of ML & Co. The pool of funds available for awards to executives varies from year to year and is based on an evenly weighted combination of changes in ML & Co.'s Net Income to Common Shareholders and ML & Co.'s after-tax return on stockholders' equity ("ROE"). This combination of Net Income and ROE provides an incentive to balance growth in profits with high return on stockholders' equity. The cash incentive pool to be received by executive officers is determined independently of cash incentive funding for all other employees, although the general criteria of Net Income to Common Shareholders and ROE are used throughout the company to determine cash incentive bonus pools.

Long-term incentive. Equity–based incentives are a fundamental component of the total compensation awarded each year to members of executive management. These awards align executive and stockholder financial interests, promote long-term strategic thinking, and encourage the retention of key executives. Executive equity awards include Restricted Shares, Restricted Units, and Stock

Options. Restricted Shares and Restricted Units provide immediate proprietary interest and reinforce a long-term focus in decision making. Both the shares and units are restricted from being sold, transferred, or assigned until the end of a vesting period. Stock Options directly align the financial interests of executives with those of shareholders by rewarding executives only if and to the extent that the price of Common Stock appreciates in the future. Stock Options have a term of ten years and become exercisable in 25% increments each year over a four-year period. In determining the size of individual Restricted Share, Restricted Unit, and Stock Option awards, consideration is given to, among other factors, amounts previously awarded to each executive officer. In past years, alternative forms of long-term incentives have been awarded. These have included Performance Shares and awards under the now-expired ROE Incentive Compensation Plan (the "ROE Plan"), which provided bonus-eligible employees a special incentive to improve ML & Co.'s ROE in 1990 and 1991.

Year-end incentive awards (which include long-term incentives) vary based on assessments of each individual's contribution to ML & Co.'s financial results, performance against pre-established objectives, potential, and competitive compensation levels. Individual performance objectives include profitability, productivity, expense and risk control, corporate image and integrity, product innovation, quality of client service, management development, and strategic planning.

Executive officers are also eligible to participate in broad based plans offered generally to ML & Co. employees.

Approval Process

The MDCC assesses the performance of the Chairman of the Board and of the Chief Executive Officer ("CEO") and the CEO assesses the performance of all other executive officers. The MDCC recommends the salaries and cash bonus awards of ML & Co.'s Chairman of the Board, President and Chief Executive Officer, Vice Chairman, and Executive Vice Presidents to the Board of Directors for approval. Grants of Restricted Shares, Restricted Units, and Stock Options to executives receiving such awards are determined solely by the MDCC consistent with Securities and Exchange Commission regulations.

Compensation of Chief Executive Officer for 1992 Performance

Total Annual Compensation. Total annual compensation (salary, annual cash bonus, and long-term equity incentive award) for the CEO is based on performance against pre-established strategic business goals, ML & Co.'s year-to-year change in financial results, and an assessment of competitors' financial performance and related CEO pay levels. Strategic business goals for the CEO include leadership in the following areas: planning for the long-term, upholding ML & Co.'s reputation for high ethical standards, promoting superior client service and innovative products, preparing management succession and development plans, and controlling costs and risks. The financial criteria used in determining CEO total compensation are ML & Co.'s year-to-year change in Net Income to Common Stockholders and its year-to-year change in ROE. The competitive pay for performance analysis compares the historical relationship between ML & Co.'s compensation amounts paid and net income with the compensation amounts paid and the net income achieved by ML & Co.'s direct public competitors in the securities industry.

Through this process it was determined that the appropriate total annual compensation (salary, cash bonus, and the dollar value of the long-term equity award) for the 1992 performance year for Mr. Schreyer, who was Chief Executive Officer through April, and Mr. Tully, who was Chief Executive Officer for the balance of the year, was $7,400,000 each. The combined total annual compensation for Messrs.

Schreyer and Tully for 1992 was not significantly different from 1991 when the payments made to both executives for 1991 under the now-expired special ROE Plan are included. Salary and cash bonus for 1991, as well as the ROE Plan payment and the dollar value of the long-term equity award, both paid in 1992 for performance in 1991, was $7,850,000 for Mr. Schreyer and $6,672,500 for Mr. Tully. When the ROE award amount is excluded from 1991 compensation, total compensation for 1992 represents a 14% increase for Mr. Schreyer and a 34% increase for Mr. Tully.

These percentage changes in total compensation compare to a 39% increase in ML & Co.'s Net Income to Common Stockholders ($946 million in 1992) and to an 11% increase in ROE (23% in 1992) in each case calculated, for 1992, excluding amounts classified as "Cumulative Effect of Changes in Accounting Principles." ML & Co.'s Net Income to Common Stockholders in 1992 was the highest ever achieved by a U.S. public securities firm. Annual cash compensation amounts paid to ML & Co.'s CEO are compared to amounts for chief executive officers of ML & Co.'s five competitors in the securities industry for which public information is available (The Bear Stearns Companies Inc., Salomon Inc, Morgan Stanley Group Inc., Paine Webber Group Inc., and Shearson Lehman Brothers Inc.). ML & Co.'s CEO cash compensation placed fifth when compared to a ranking of the fifteen annual cash compensation amounts paid to those five chief executive officers for the three most recent years for which data was available in January, 1993. These companies have been selected because they are ML & Co.'s major public competitors in the securities business. The group of companies included in the peer group index in the performance graph on page 23 consists of these companies and other public financial services companies that compete with ML & Co. Competitive long term compensation amounts can only be estimated and therefore an accurate total compensation ranking is not possible.

Annual Cash Compensation. The amount paid in salary is based on the CEO's performance, length of service in the position, and competitive pay rates. Typically, the percentage change in CEO cash compensation (salary plus annual cash bonus) is slightly less than the percentage change in ML & Co.'s Net Income to Common Stockholders. In 1992, ML & Co.'s Net Income to Common Stockholders (excluding "Cumulative Effect of Changes in Accounting Principles") increased 39%, and the cash compensation (salary and bonus) for Mr. Schreyer and for Mr. Tully increased 16% and 36%, respectively, to $5,200,000 each. If the payments made to both executives for 1991 under the ROE Plan are included in their 1991 annual cash compensation, the combined annual cash compensation for Messrs. Schreyer and Tully for 1992 is not significantly different from 1991.

Long-Term Equity Incentive. The dollar amount granted as long-term equity incentive for 1992 performance is the difference between the amount determined for total annual compensation ($7,400,000) and the amount paid in cash compensation ($5,200,000). This difference of $2,200,000 was awarded in a combination of Restricted Shares, Restricted Units, and Stock Options as shown under the captions "Summary Compensation Table" and "Option Grants in Current and Last Fiscal Years." The dollar value of the long-term award for the CEO was allocated as follows: 25% ($550,000) as Restricted Shares, 25% ($550,000) as Restricted Units, and 50% ($1,100,000) as Stock Options. The number of Restricted Shares and Restricted Units awarded was calculated by dividing the dollar value of each award by the average price of Common Stock for the month of December, 1992 ($60.90). The number of Stock Options awarded was calculated by dividing the dollar value of the Stock Option award by the same average stock price and multiplying the result by four. The multiple of four options to one share was selected because the Black-Scholes value of a ML & Co. employee Stock Option, taking into account the illiquidity of employee stock options, has over time averaged approximately 25% of the value of a share of Common Stock.

The ultimate future value to be realized by the CEO for this long-term award of Restricted Shares, Restricted Units, and Stock Options is dependent on the future price of Common Stock and on dividends.

Summary

The CEO's compensation for performance in 1992, valued when it was approved in January, 1993 using the methodology explained above, consisted of:

	Salary	Annual Bonus	Restricted Shares and Units *	Stock Options *	Total **
William A. Schreyer Chairman of the Board CEO through April, 1992	$600,000	$4,600,000	$1,100,000	$1,100,000	$7,400,000
Daniel P. Tully President CEO since May, 1992	$500,000	$4,700,000	$1,100,000	$1,100,000	$7,400,000

* Based upon an average December, 1992 price of Common Stock of $60.90, which is the price the MDCC used as the basis for determining the relative awards of Restricted Shares, Restricted Units, and Stock Options. These amounts differ from the amounts shown in the Summary Compensation Table under the column headed "Restricted Stock Awards" and from the amounts shown in the table entitled "Option Grants in Current and Last Fiscal Year" under the column headed "Grant Date Present Value" because those amounts are based on the price of Common Stock on the date of grant.

** Does not include: grants made in 1992 with respect to 1991 performance or payouts made in 1992 with respect to prior years' long-term incentive plan awards, dividend equivalents for Restricted Units granted in prior years, or the value realized or unrealized with respect to prior years' grants of Restricted Shares, Restricted Units, or Stock Options or amounts in the Summary Compensation Table under the column entitled All Other Compensation.

Management Development and Compensation Committee

JILL K. CONWAY, CHAIR
WILLIAM O. BOURKE
ROBERT A. HANSON
EARLE H. HARBISON, JR.
JOHN J. PHELAN, JR.

* * *

Compensation Tables and Other Information

The following tables set forth information with respect to the Chief Executive Officer and the four most highly compensated executive officers of ML & Co. as to whom the total annual salary and bonus for the fiscal year ended December 25, 1992 exceeded $100,000.

Summary Compensation Table

Name and Principal Position	Years	Annual Compensation: Salary	Annual Compensation: Bonus	Annual Compensation: Other Annual Compensation(2)	Long-Term Compensation: Awards(1): Fiscal Year	Long-Term Compensation: Awards(1): Restricted Stock Awards (3)(4)(5)	Long-Term Compensation: Awards(1): Options (Shares)	Long-Term Compensation: Payouts: Fiscal Year	Long-Term Compensation: Payouts: Long-Term Incentive Plan Payouts(6)	All Other Compensation(7)
William A. Schreyer.....	1992	$600,000	$4,600,000	$41,313	1993	$1,234,989*	72,250*	1993	0	$25,900
Chairman of the Board	1991	550,000	3,950,000		1992	1,001,875	70,000	1992	$3,752,289**	69,823
CEO through April, 1992	1990	550,000	1,000,000		1991	1,256,250	300,000	1991	95,000	
					1990	442,500	300,000	1990	289,896	
Daniel P. Tully	1992	500,000	4,700,000	35,130	1993	1,234,989*	72,250*	1993	0	48,800
President	1991	450,000	3,375,000		1992	853,025	59,600	1992	3,069,331**	90,993
CEO since May, 1992	1990	450,000	865,000		1991	1,067,813	255,000	1991	80,750	
					1990	376,125	250,000	1990	231,916	
John L. Steffens.....	1992	400,000	3,100,000	17,781	1993	729,766*	42,690*	1993	0	50,300
Executive Vice President	1991	400,000	2,750,000		1992	500,938	35,000	1992	1,943,644**	90,471
	1990	400,000	700,000		1991	502,500	80,000	1991	52,250	
					1990	221,250	120,000	1990	173,937	
David H. Komansky	1992	300,000	3,150,000	17,781	1993	729,766*	42,690*	1993	0	5,755
Executive Vice President	1991	225,000	2,275,000		1992	500,938	35,000	1992	192,375**	25,493
	1990	225,000	575,000		1991	502,500	80,000	1991	13,537	
					1990	221,250	40,000	1990	129,591	
Herbert M. Allison, Jr.....	1992	300,000	3,000,000	17,781	1993	673,631*	39,410*	1993	0	3,190
Executive Vice President	1991	275,000	2,225,000		1992	500,938	35,000	1992	405,000**	27,124
	1990	275,000	450,000		1991	502,500	80,000	1991	28,500	
					1990	221,250	90,000	1990	0	

* These awards were received in the 1993 fiscal year for performance in 1992.

** These payouts were received in the 1992 fiscal year for performance in 1991 and preceding years.

(1) Awards were made in January or February of the indicated fiscal year for performance in the prior year.

(2) Amounts shown consist of dividend equivalents paid on Restricted Units.

(3) Amounts shown include both Restricted Share and Restricted Unit awards, which are valued based on closing prices of Common Stock on the Consolidated Transaction Reporting System on the dates of grant of such awards. The 1993 grant was made on February 1, 1993; the closing price on that date was $68.375. Amounts shown include equal numbers of Restricted Shares and Restricted Units, which were granted in February, 1993 for performance in 1992, in February, 1992 for performance in 1991, in February, 1991 for performance in 1990, and in February, 1990 for performance in 1989. Such shares and units generally have four year vesting periods, but can vest earlier upon the achievement of specific cumulative after-tax return on equity ("ROE") goals. Shares and units granted in February, 1993 may vest after two years (at year-end) upon the achievement of a cumulative after-tax ROE of 45%; shares and units granted in February, 1992 may vest after two years (at year-end) upon the achievement of a cumulative after-tax ROE of 40%. Shares and units granted in February, 1991 and February, 1990 vested in 1992 based on the achievement of after-tax ROE goals of 35%.

(4) Dividends are paid on unvested Restricted Shares and dividend equivalents are paid on unvested Restricted Units. Such dividends and dividend equivalents are equal in amount to the dividends paid on shares of Common Stock.

(5) The number and value of Restricted Shares and Restricted Units held by executive officers named in the table as of December 25, 1992 are as follows: Mr. Schreyer (33,750 shares and 8,750 units—$2,565,938); Mr. Tully (27,450 shares and 7,450 units—$2,107,088); Mr. Steffens (19,375 shares and 4,375 units—$1,433,906); Mr. Komansky (15,875 shares and 4,375 units—$1,222,594); and Mr. Allison (15,875 shares and 4,375 units—$1,222,594). In addition, the following numbers of Restricted Shares and Restricted Units that were granted in 1991, and which vested on December 25, 1992 (as mentioned in footnote 3, above), were paid out on December 30, 1992 to the following named executive officers: Mr. Schreyer (25,000 shares and $1,512,500 (representing the value of 25,000 units)); Mr. Tully (21,250 shares and $1,285,625 (representing the value of 21,250 units)); Mr. Steffens (10,000 shares and $605,000 (representing the value of 10,000 units)); Mr. Komansky (10,000 shares and $605,000 (representing the value of 10,000 units)); and Mr. Allison (10,000 shares and $605,000 (representing the value of 10,000 units)).

(6) Amounts shown consist of: (i) the value of Performance Shares paid out in 1992 based on the attainment of performance goals for the fiscal years 1988 through 1991 and paid out in 1990 based on the attainment of performance goals for the fiscal years 1986 through 1989, (ii) cash payments under the now-expired ROE Plan made in 1992 based on the ROE level achieved by ML & Co. in 1991 and made in 1991 based on the ROE level achieved by ML & Co. in 1990, and (iii) the gain from the sale in 1990 by one executive officer of book value shares under ML & Co.'s 1978 Incentive Equity Purchase Plan.

(7) Amounts shown for 1992 consist of the following: (i) contributions by ML & Co. to accounts of employees under the 401(k) Savings & Investment Plan (the "Savings Plan")—Mr. Schreyer ($1,500), Mr. Steffens ($1,500), Mr. Komansky ($1,500), and Mr. Allison ($1,500); (ii) allocations by

ML & Co. to accounts of employees under the defined contribution retirement program (including allocations and cash payments made because of limitations imposed by the Internal Revenue Code) (the "Retirement Program")—Mr. Schreyer ($25,173), Mr. Tully ($25,693), Mr. Steffens ($23,171), Mr. Komansky ($21,168), and Mr. Allison ($21,168); and (iii) distributions received on investments in ML & Co.-sponsored employee partnerships—Mr. Schreyer ($43,150), Mr. Tully ($65,300), Mr. Steffens ($65,800), Mr. Komansky ($2,825), and Mr. Allison ($4,456). Amounts shown for 1993 consist of the following: (i) contributions by ML & Co. on or before February 28, 1993 to accounts of employees under the Savings Plan—Mr. Schreyer ($1,500), Mr. Steffens ($1,500), Mr. Komansky ($1,500), and Mr. Allison ($1,500) and (ii) distributions on or before February 28, 1993 received on investments in ML & Co.-sponsored employee partnerships—Mr. Schreyer ($24,400), Mr. Tully ($48,800), Mr. Steffens ($48,800), Mr. Komansky ($4,255), and Mr. Allison ($1,690). Aggregate amounts paid during 1993 will be reported in the proxy statement for the 1994 Annual Meeting of Stockholders.

Option Grants in Current and Last Fiscal Years

Name	Fiscal Year	Options Granted(1)	% of Total Options Granted to Employees in Fiscal Year	Exercise Price ($ per Share)	Expiration Date(2)	Grant Date Present Value(3)
William A. Schreyer	1993	72,250	2.5%	$67.6250	1/27/2003	$1,397,496
	1992	70,000	2.6%	59.3125	1/29/2002	1,261,050
Daniel P. Tully	1993	72,250	2.5%	67.6250	1/27/2003	1,397,496
	1992	59,600	2.2%	59.3125	1/29/2002	1,073,694
John L. Steffens	1993	42,690	1.5%	67.6250	1/27/2003	825,731
	1992	35,000	1.3%	59.3125	1/29/2002	630,525
David H. Komansky	1993	42,690	1.5%	67.6250	1/27/2003	825,731
	1992	35,000	1.3%	59.3125	1/29/2002	630,525
Herbert M. Allison, Jr.	1993	39,410	1.4%	67.6250	1/27/2003	762,288
	1992	35,000	1.3%	59.3125	1/29/2002	630,525

(1) Reflects awards made in January of the indicated fiscal year for performance in the prior year.

(2) All options are exercisable as follows: 25 percent after one year, 50 percent after two years, 75 percent after three years, and 100 percent after four years.

(3) Value based on a variation of Black-Scholes option pricing model using the average of the high and low prices on the Consolidated Transaction Reporting System of a share of Common Stock on the date of grant ($67.625 for the 1993 grants and $59.3125 for the 1992 grants) and applying a discount of 25% to reflect the non-transferability of the options. The actual value of a stock option will depend on the future price of Common Stock and cannot accurately be forecast by application of a pricing model.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

Name	Shares Acquired on Exercise	Value Realized	Number of Unexercised Options at Fiscal Year-End		Value of Unexercised In-The-Money Options at Fiscal Year-End(1)	
			Exercisable (shares)	Unexercisable (shares)	Exercisable	Unexercisable
William A. Schreyer	70,000	$1,518,125	267,500	482,500	$9,864,844	$15,634,531
Daniel P. Tully	0	0	278,750	405,850	9,958,125	13,137,700
John L. Steffens	0	0	147,500	177,500	5,118,281	5,323,281
David H. Komansky	0	0	60,000	125,000	2,148,750	3,436,563
Herbert M. Allison, Jr.	0	0	95,000	150,000	3,395,625	4,374,063

(1) This valuation represents the difference between $60.375, the closing price of Common Stock on December 24, 1992 on the Consolidated Transaction Reporting System, and the exercise prices of these options.

Pension Plan Annuity

In 1988, the defined benefit Pension Plan was terminated, and a group annuity contract to pay the Pension Plan benefits to the vested participants was purchased from Metropolitan Life Insurance Company with a portion of the terminated Pension Plan trust assets. This annuity is payable at normal retirement (generally age 65) or at an early retirement age in a reduced amount. ML & Co. participates in the actuarial experience and investment performance of these annuity assets under an agreement with Metropolitan Life Insurance Company.

Upon retirement, executive officers of ML & Co. will be eligible to receive an annuity. Those retiring at age 65 with at least 10 years of Pension Plan participation will receive up to the statutory maximum annual annuity payments applicable to the year in which the annuity payments are made, which, during 1993, are $115,641 (if born before 1938), $107,932 (if born between 1938 and 1954), and $100,222 (if born after 1954). These amounts will be adjusted annually by the Internal Revenue Service for increases in the cost of living. The compounded annual growth rate of these cost of living increases has been 4.27 percent since 1988, the year indexing began. In future years, after adjustments for cost of living increases, these annuities, if payable as straight life annuities, will not exceed the following amounts for the following executive officers: William A. Schreyer ($380,255) and Daniel P. Tully ($316,168) subject to the statutory maximum ($115,641 in 1993); John L. Steffens ($227,963) subject to the statutory maximum ($107,932 in 1993); and David H. Komansky ($103,655) and Herbert M. Allison, Jr. ($81,543); these annuity amounts reflect an offset for estimated social security benefits in accordance with the provisions of the terminated Pension Plan.

Annuity Agreements

ML & Co. entered into annuity agreements with Messrs. Schreyer and Tully, effective July 24, 1991, as amended April 30, 1992 (the "Annuity Agreements"), to provide for supplemental annuity payments to them and their surviving spouses. Estimated amounts, together with amounts from other sources described below, payable to Messrs. Schreyer and Tully as a straight life annuity upon retirement at age 60 or thereafter, based on their respective "Highest Consecutive 5-Year Average Earnings" and "Years of Total Employment," can be calculated using the following table:

Highest Consecutive 5-Year Average Earnings	Years of Total Employment		
	35	40	45
$2,000,000	$875,000	$1,000,000	$1,125,000
2,100,000	918,750	1,050,000	1,181,250
2,200,000	962,500	1,100,000	1,237,500
2,300,000	1,006,250	1,150,000	1,293,750
2,400,000	1,050,000	1,200,000	1,350,000
2,500,000	1,093,750	1,250,000	1,406,250
2,600,000	1,137,500	1,300,000	1,462,500
2,700,000	1,181,250	1,350,000	1,500,000
2,800,000	1,225,000	1,400,000	1,500,000
2,900,000	1,268,750	1,450,000	1,500,000
3,000,000	1,312,500	1,500,000	1,500,000

The annuity is payable if the individual retires or dies while an executive officer of ML & Co. The annual amount of the retiree's annuity will be equal to 1.25 percent of the individual's highest consecutive 5-year average earnings (*i.e.,* total cash compensation) multiplied by years of total employment up to age 65, as reduced by the Pension Plan Annuity and the annuity value of the total of the individual's benefits allocable to ML & Co. contributions to all qualified retirement plans, namely, the Savings Plan and the Retirement Program. As of December 25, 1992, Messrs. Schreyer and Tully had highest consecutive 5-year average earnings of $2,420,000 and $2,066,000, respectively, and years of total employment of approximately 44½ years and 37 years, respectively. The amount of their individual annuities, however, together with amounts from other sources described above, cannot exceed $1,500,000 if payable as a life annuity, or $1,270,000 if payable as a 50% or 100% joint and survivor life annuity. The payment will be made monthly in the form of a life annuity or, subject to reductions, a joint and survivor life annuity, or 10-year certain and life annuity. The survivor benefits, if applicable, are payable only to a spousal beneficiary.

Severance Agreements

ML & Co. has agreements with 39 present members of executive and senior management, including Messrs. Schreyer, Tully, Steffens, Komansky, and Allison. These agreements provide for payments and other benefits if there is a Change in Control (generally as defined below) of ML & Co. and the employee's employment is subsequently terminated by ML & Co. or its successor (other than for cause, disability, retirement, or death) or by the employee for certain defined reasons such as a change in responsibilities or a reduction in salary or benefits. The term of each agreement is 3 years, which is automatically extended each year for an additional year until notice to the contrary is given to the employee. Under each agreement, the employee will receive a lump sum payment equal to 2.99 times the employee's average annual compensation for the 5 years immediately preceding the year of the termination of employment. The employee shall also receive (i) a lump sum payment equal to the after-tax value of life, disability, accident, and health insurance benefits for 24 months after termination of employment, (ii) a lump sum payment equal to the retirement contribution, and an amount sufficient to cover the income taxes payable thereon, that the employee would have been eligible to receive from ML & Co. under the terms of the Retirement Program and any applicable ML & Co. contributions to the Savings Plan, or any successor program or plan that may be in effect at the time of the Change in Control, determined as if the employee were fully vested thereunder and had continued (after the date of termination) to be employed for an additional 24 months at the employee's highest annual rate of compensation during the 12 months immediately preceding the date of termination for purposes of determining the basic contributions and any applicable supplemental contributions; and (iii) any legal expenses and fees incurred as a result of his termination of employment. A "Change in Control" of ML & Co. generally includes: (i) the acquisition by any person of the beneficial ownership of securities

representing 30 percent or more of the combined voting power of ML & Co.'s then outstanding voting securities; (ii) a change in the composition of the Board of Directors such that, within a period of 2 consecutive years, individuals who at the beginning of such 2-year period constituted the Board of Directors and any new directors elected or nominated by at least ¾ of the directors who were either directors at the beginning of the 2-year period or similarly elected, cease for any reason to constitute at least a majority of the Board of Directors; or (iii) the entering into of an agreement, the consummation of which would result in a Change in Control. Any payments received under these agreements would be in addition to amounts received under the Long-Term Incentive Compensation Plan and the Equity Capital Accumulation Plan, which, in the event of a Change in Control, provide for early vesting or payment.

Compensation of Directors

ML & Co. directors who are not full-time employees of ML & Co. or an affiliated corporation receive monthly cash payments at a rate of $35,000 per year ($40,000 prior to November, 1992) in base compensation and reasonable travel expenses incurred in connection with attending meetings. In addition, non-employee directors receive $15,000 per year for service as members of, or $25,000 per year for chairing, the Audit and Finance Committee (or the Audit Committee or the Finance Committee before they were combined in July, 1992) and the Management Development and Compensation Committee, and $6,000 per year for chairing the Nominating Committee. Pursuant to the Merrill Lynch & Co., Inc. Non-Employee Directors' Equity Plan, each current non-employee director was granted, on November 4, 1992, restricted stock with a grant value of $50,000 (or a lesser amount to the extent that such non-employee director is scheduled to retire before the fifth Annual Meeting of Stockholders subsequent to such grant). Each new non-employee director will receive a similar grant upon commencement of service. Thereafter, at the beginning of the month next following the date of the fifth Annual Meeting following the date of each such prior grant, an additional similar grant will be made to each non-employee director. All such restricted stock vests in the same proportion on the date of each of the five Annual Meetings (or lesser number of Annual Meetings if the director's scheduled date of retirement is earlier) following its grant. Each non-employee director who has served for 5 years or has reached age 65, and who thereafter ceases to serve for any reason other than removal for cause, is eligible to receive a pension benefit. The beneficiary(ies) or estate of each non-employee director is entitled to receive a death benefit in the event of such director's death during his term. Both such benefits are based upon the annual base compensation, at the time of the director's cessation of service or death, as the case may be, plus $10,000, and the director's age and length of service. Although the amount and method of payment of each such benefit cannot be determined until the time of entitlement, it will not, on an annualized basis, exceed an amount equal to the sum of the annual base compensation for non-employee directors at the time of the director's cessation of service or death, as the case may be, plus $10,000. ML & Co. also offers health, life, and business travel insurance benefits to non-employee directors.

Certain Transactions

Between the beginning of the 1992 fiscal year and February 28, 1993, certain directors and executive officers of ML & Co. and their associates were indebted to MLPF&S, as customers, as a result of debit balances in margin accounts. Transactions in such margin accounts were in the ordinary course of business, were substantially on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, except that interest rates charged were the same as the lowest interest rates charged such other persons, and did not involve more than

the normal risk of collectability or present other unfavorable features. In addition, certain directors, executive officers, or their associates were indebted to other subsidiaries of ML & Co. as a result of transactions regarding Equity Access® credit accounts (a personal revolving line of credit secured by the unencumbered equity in an individual's primary or secondary residence) and PrimeFirst® loans (an adjustable rate first mortgage loan). These transactions were in the ordinary course of business and substantially on the same terms as those prevailing for comparable transactions with the general public, except that employees are offered interest rates under Equity Access credit accounts and account opening fees for Equity Access credit accounts and PrimeFirst loans that are more favorable.

From time to time since the beginning of the 1992 fiscal year, ML & Co. and certain of its subsidiaries have engaged in transactions in the ordinary course of business with State Street Bank and Trust Company, Janus Capital Corporation, and The Equitable Companies Incorporated and their respective parents and subsidiaries, which are the holders of more than 5 percent of the outstanding shares of Common Stock; such transactions were on substantially the same terms as those prevailing at the time for comparable transactions with others.

From time to time since the beginning of the 1992 fiscal year, ML & Co., through certain of its subsidiaries, in the ordinary course of business has performed investment banking, financial advisory, and other services for certain corporations with which its directors are affiliated.

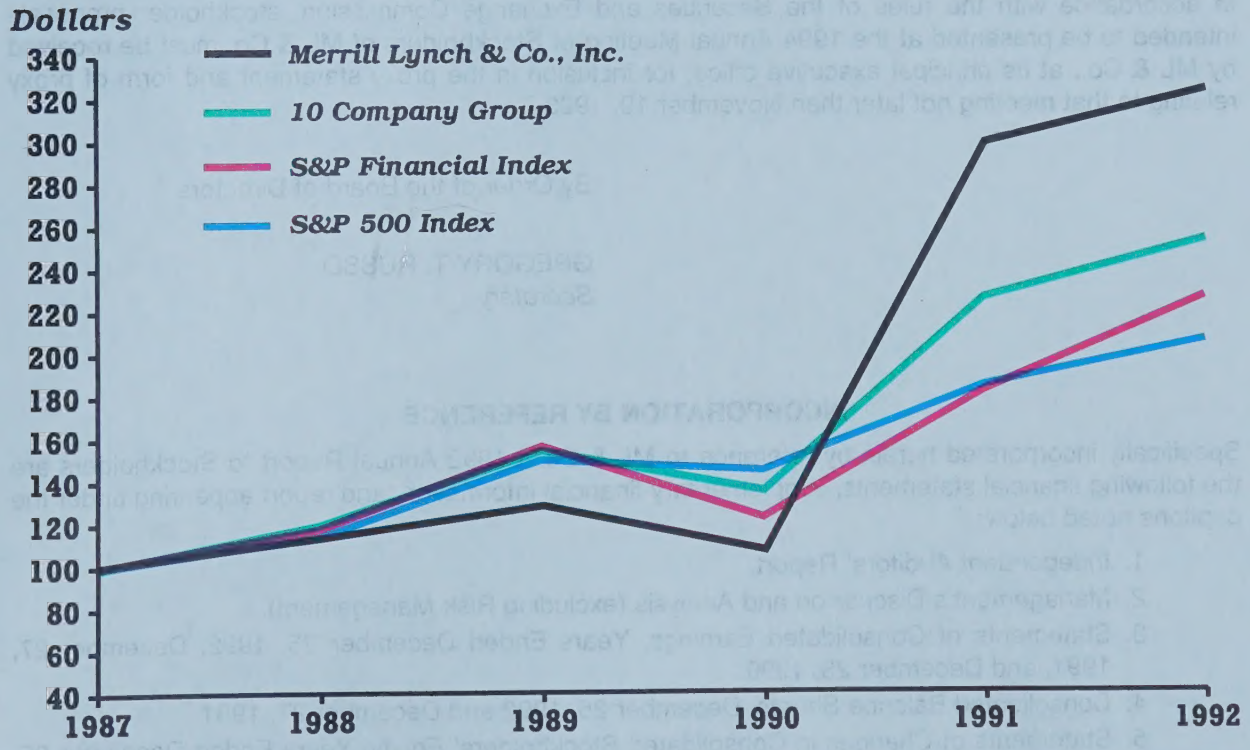
A consolidated stockholder derivative action was commenced in October, 1991, in New York State Supreme Court by stockholders Charles Miller and Kenneth Steiner (Index No. 29885/91 Sup. Ct.). The plaintiffs in this consolidated action assert breach of fiduciary duties in connection with a series of year-end securities transactions between subsidiaries of ML & Co. and Guarantee Security Life Insurance Company ("GSLIC") in 1984-1988, against all present directors of ML & Co. who were directors at the time of these trades. Stockholders Charles Wilson and Jules Bernstein commenced derivative actions in March, 1992 in New York State Supreme Court (Index No. 6113/92 Sup. Ct. and No. 7992/92 Sup. Ct., respectively). Wilson's suit alleges that two former employees and the President of ML & Co. breached various duties in connection with the GSLIC transactions and the supervision of the high yield bond department. Bernstein's suit is essentially identical to the Miller-Steiner suit, but also includes all current directors as defendants. The damages sought in all of the above derivative actions are unspecified. The Wilson and Bernstein actions have been dismissed by the court for failure to comply with procedures required for commencing derivative actions. The Miller-Steiner suit, in which such dismissal was denied, is now on appeal concerning that issue.

Compensation Committee Interlocks and Insider Participation: Member's Transaction with the Corporation

The members of the Management Development and Compensation Committee are Jill K. Conway (Chair), William O. Bourke, Robert A. Hanson, Earle H. Harbison, Jr., and John J. Phelan, Jr. None of these individuals is an insider, and no "compensation committee interlocks" existed during the last fiscal year. A NYSE membership owned by Mr. Phelan was leased by him to an employee of a NYSE specialist firm that is a subsidiary of ML & Co. The subsidiary is entitled to use the membership and is responsible for making lease payments. This lease commenced in May, 1991 at a rate of $66,000 per year and was renewed in May, 1992 at a rate of $89,000 per year, the then prevailing lease rates; the range of rates for new NYSE membership leases, as reported by the NYSE, was $48,000 to $84,000 during 1991 and $70,000 to $100,000 during 1992. To provide for a continuation of lease payments at fair market value, the lease specifies that it is renewable annually at the then prevailing lease rate.

PERFORMANCE GRAPH

The following performance graph compares the performance of ML & Co.'s Common Stock for the last five fiscal years to that of the S&P 500 Index, the S&P Financial Index, and an index based on the common stock of the following 10 companies: American Express Company, Bankers Trust New York Corporation, The Bear Stearns Companies Inc., A.G. Edwards, Inc., J.P. Morgan & Co. Incorporated, Morgan Stanley Group Inc., Paine Webber Group Inc., Primerica Corporation, Salomon Inc, and The Charles Schwab Corporation. The graph assumes that the value of the investment in Common Stock and each index was $100 at December 25, 1987 and that all dividends were re-invested. Stock price performances shown on the graph are not necessarily indicative of future price performances.



	1987	1988	1989	1990	1991	1992
Merrill Lynch & Co., Inc.	100.00	113.41	128.11	106.85	299.61	324.27
10 Company Group	100.00	120.26	154.98	135.64	226.65	254.26
S&P Financial Index	100.00	117.60	155.95	122.19	181.90	226.43
S&P 500 Index	100.00	114.22	150.30	144.95	184.96	206.14

OTHER MATTERS

The Board of Directors knows of no business that will be presented for consideration at the Annual Meeting other than those items stated in the Notice. Should any other matters properly come before the Annual Meeting or any adjournment thereof, shares represented by the enclosed form of proxy, if signed and returned, will be voted in accordance with the judgment of the person or persons voting the proxies.

ML & Co. will furnish any stockholder a copy of its 1992 Form 10-K Annual Report (including financial statements and financial statement schedules but excluding other exhibits), without charge, upon request addressed to Gregory T. Russo, Secretary, Merrill Lynch & Co., Inc., 12th Floor, 100 Church Street, New York, New York 10080-6512.

STOCKHOLDER PROPOSALS FOR THE 1994 ANNUAL MEETING

In accordance with the rules of the Securities and Exchange Commission, stockholder proposals intended to be presented at the 1994 Annual Meeting of Stockholders of ML & Co. must be received by ML & Co., at its principal executive office, for inclusion in the proxy statement and form of proxy relating to that meeting not later than November 19, 1993.

By Order of the Board of Directors

GREGORY T. RUSSO
Secretary

INCORPORATION BY REFERENCE

Specifically incorporated herein by reference to ML & Co.'s 1992 Annual Report to Stockholders are the following financial statements, supplementary financial information, and report appearing under the captions noted below:

1. Independent Auditors' Report.
2. Management's Discussion and Analysis (excluding Risk Management).
3. Statements of Consolidated Earnings, Years Ended December 25, 1992, December 27, 1991, and December 28, 1990.
4. Consolidated Balance Sheets, December 25, 1992 and December 27, 1991.
5. Statements of Changes in Consolidated Stockholders' Equity, Years Ended December 25, 1992, December 27, 1991, and December 28, 1990.
6. Statements of Consolidated Cash Flows, Years Ended December 25, 1992, December 27, 1991, and December 28, 1990.
7. Notes to Consolidated Financial Statements.
8. Quarterly Information.
9. Supplemental Financial Information.



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